光彩未來集團
Glory Future Group

Glory Future Group Limited

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 8071)

2005 annual report

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 of the Stock Exchange 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 announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at “www.hkgem.com” in order to obtain up-to-date information on GEM-listed issuers.

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BOARD OF DIRECTORS

Executive Directors
Mr. Choi Koon Ming *(Chairman)*
Mr. Ng Kam Yiu *(Chief Executive Officer)*
Mr. Chow Yeung Tuen, Richard
(Finance Director)

Non-executive Director
Mr. Ha Kee Choy, Eugene

Independent non-executive Directors
Mr. Wu Tak Lung
Mr. Phillip King
Mr. Ng Cheuk Tat, Ambrose

Company Secretary and Qualified Accountant
Mr. Ling Chun Kwok CPA, FCCA

COMPLIANCE OFFICER

Mr. Ng Kam Yiu

AUTHORISED REPRESENTATIVES

Mr. Chow Yeung Tuen, Richard
Mr. Ng Kam Yiu

AUDIT COMMITTEE

Mr. Wu Tak Lung *(Chairman)*
Mr. Phillip King
Mr. Ng Cheuk Tat, Ambrose

REMUNERATION COMMITTEE

Mr. Wu Tak Lung *(Chairman)*
Mr. Choi Koon Ming
Mr. Phillip King
Mr. Ng Cheuk Tat, Ambrose

AUDITORS

Grant Thornton
Certified Public Accountants

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Fubon Bank (Hong Kong) Limited

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

7th Floor, San Kei Tower
56-58 Yee Wo Street
Causeway Bay
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICES

Principal registrar
Butterfield Fund Services (Cayman) Limited
Butterfield House
Fort Street, P.O. Box 705
George Town, Grand Cayman
Cayman Islands

Branch registrar
Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

8071

Chairman's Statement

On behalf of the board of directors ("**Board**"), I hereby present to our shareholders the annual results of Glory Future Group Limited ("**Company**") and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2005 ("**year**").

Financial highlights

For the year, the Group's audited turnover and net loss attributable to equity holders of the Company were approximately HK$630,000 and HK$4,526,000 respectively, representing an increase of approximately 374% and a decrease of approximately 14.50% respectively, as compared with the audited and restated figures of turnover of HK$133,000 and net loss attributable to equity holders of the Company of HK$5,293,000 for the year 2004. Operating loss for the year before finance costs was reduced by approximately HK$294,000, represented by a 10% drop as compared with that of last year. In addition, finance costs were greatly reduced by a decrease of interest payment of HK$448,000 mainly due to the adoption of new accounting standards.

Business review

The turnover of the Group was mainly contributed by a newly established subsidiary, Leland Solutions Limited. During the year, global economy has recovered and Hong Kong had a strong economic rebound. Hence, the Board is confident that the Group's turnover will improve in the coming future barring unforeseen circumstances. On the other hand, keen competition in the existing information technology market and high cost of sales caused low consolidated gross profit margin of approximately 10%. In addition, high demand for information technology staff in the whole industry both in Hong Kong and Mainland China will cause high staff costs.

Prospects

Under the abovementioned circumstances, the Group will review its strategic mission to provide quality services to its customers in order to grasp market trends and business opportunities emerged from the latest economic rebound. The Group is optimistic about continuous growth in its focused areas, namely information technology development outsourcing services, systems integration services and professional information technology services, which will be achieved through continuous development of a team of professionals with industrial domain expertise and are knowledgeable in class technology and strong strategic partner alliances.

Appreciation

Finally, on behalf of the Board, I would like to express my deepest gratitude to the shareholders of the Company and professional advisors for their continuous support to the Group, and to sincerely thank the management and all staff for their dedication and diligence.

Choi Koon Ming
Chairman
Hong Kong, 22 March 2006

Management Discussion and Analysis

OVERVIEW

During the year, the global economy has recovered and expanded in a positive way. In addition, strong local economic rebound and rapid economic development in Mainland China is expected to help us improve corporate turnover in the future.

The Group strives to be more competitive by tightening cost control in each level and continues to explore new investment opportunities in other areas to serve the best interest of the shareholders of the Company.

OPERATIONAL REVIEW

During the year, the turnover of the Group increased by approximately 374% as compared with that of last year. The main contribution of the turnover of the Group in the year is from a newly established subsidiary, Leland Solutions Limited, which contributed approximately 85% of the revenue of the Group. Despite this, intense competition and high cost of sales made a low gross profit margin of approximately 10% in the year. However, the performance was improved by changing the gross loss made in year 2004 to gross profit made in this year.

The audited net loss for the year attributable to equity holders of the Company amounted to approximately HK$4.5 million (2004: approximately HK$5.3 million) which was reduced as compared with that of last year since the gross profit ratio was improved and the finance costs was greatly reduced by approximately HK$448,000, approximately 19% decrease.

In the future, the management team will focus on information technology development outsourcing services, systems integration services and professional information technology services. The operational management is instructed to negotiate with potential clients and conclude new contracts to uplift the profit margin and to improve corporate profitability in the coming year. In addition, the management will consider increasing marketing campaigns according to the existing available resources and the actual market conditions.

FINANCIAL REVIEW

Liquidity and financial resources

The Group financed its operations primarily with internally generated cash flow together with the net proceeds from the issue of the convertible bonds in October 2003 and the shareholder's loan from Sun Wah Net Investment Limited ("**Sun Wah**"). The Group still adopted a conservative financial management and treasury policy. All borrowings and the majority of bank balances are denominated in Hong Kong dollars and put in short term fixed deposits.

As at 31 December 2005, the Group had cash and cash equivalent of approximately HK$1.9 million (2004: HK$0.9 million). During the year, the Group obtained a new shareholder's loan from Sun Wah in the principal amount of HK$12 million which bears interest at a rate of 4% per annum for a six-month term and such loan is repayable on 24 April 2006. This shareholder's loan was used to repay the shareholder's loan in the principal amount of HK$9 million with an accrued interest at a rate of 3% per annum for a six-month term granted by the same party on 25 March 2005. The old shareholder's loan in the principal amount of HK$9 million was used to repay the convertible bonds in the principal amount of HK$7 million (stated in the balance sheet as at 31 December 2004 at the fair value of HK$6.97 million issued on 28 March 2002 together with the relating unsecured interest-free advances of HK$0.8 million to be repaid on the maturity date of its convertible bonds. Accordingly, the Group utilised total funds of approximately HK$3.3 million to finance its operation for the year ended 31 December 2005.

As at 31 December 2005, the Group had total outstanding borrowings of approximately HK$20.57 million (2004: HK$15.17 million) stated in the consolidated balance sheet. The borrowings comprised an unsecured convertible bond in the principal amount of HK$9 million (as stated in the balance sheet as at 31 December 2005 at the fair value of HK$7.98 million), which will mature on 27 October 2006 and a shareholder's loan of HK$12 million granted by Sun Wah and drawn on 25 October 2005. This shareholder's loan is unsecured and bears interest at a rate of 4% per annum and is due for repayment on 24 April 2006. In addition, during the year, the amount due to minority shareholder of subsidiaries was HK$0.5 million (2004: HK$0.4 million), which was unsecured, interest-free and not repayable within 12 months from 31 December 2005.

Capital structure

As at 31 December 2005, the Company's total number of issued shares was 75,372,000 (2004: 753,720,000) after the share consolidation on the basis of every 10 issued and unissued shares of HK$0.05 each in the capital of the Company consolidating into one ordinary share of HK$0.50 each in the capital of the Company pursuant to an ordinary resolution passed in the extraordinary general meeting of the Company held on 16 November 2005 ("**Share Consolidation**"). On 16 November 2005, a special resolution in relation to, among other matters, the cancellation of the share premium account of the Company of an amount of HK$15,796,000 to be applied towards the elimination of the accumulated loss of the Company was passed.

Subsequently, with the sanction of the Grand Court of the Cayman Islands dated on 10 February 2006 (Cayman Islands time) and the completion of certain procedural requirements, the nominal value of each share of the Company was reduced from HK$0.50 to HK$0.01 and, an amount of HK$36,932,280 from the share capital account was applied towards the elimination of part of the accumulated losses of the Company.

As at 31 December 2005, the Group had convertible bonds in the principal amount of HK$9 million (as stated in the balance sheet at the fair value of HK$7.98 million) outstanding (2004: HK$16 million as stated in the balance sheet at the fair value of HK$13.86 million). Such convertible bonds are unsecured and bear interest at a rate of 3% per annum and will become mature on 27 October 2006.

Investment, material acquisitions and disposal of subsidiaries and affiliated companies

The Group formed a new subsidiary, Leland Solutions Limited, with Sun Rise Int'l Trading Limited, a business partner who has extensive experience in information technology solution services, on 23 August 2005 pursuant to an agreement made between the parties on 1 August 2005. An announcement in relation to the formation of Leland Solutions Limited was published on the GEM website on 2 August 2005.

Save as disclosed above, the Group held no material acquisitions or disposals of subsidiaries and affiliated companies during the year (2004: Nil).

Segment comments

The turnover from Internet-based and Windows-based applications, web page design and website maintenance segment dropped from HK$133,000 last year to HK$48,000 in 2005, representing a decrease of 64%. However, the new subsidiary brought some new businesses such as system integration and information technology consulting services to the Group during the year. Such new businesses segments contributed a turnover of HK$582,000 (2004: Nil) for the year.

The other two new business segments namely system integration and information technology consultancy services contributed profit margin of 1% and 46% respectively.

Employee information

As at 31 December 2005, the Group employed a total of 7 (2004: 6) employees. The staff costs, including directors' remuneration, were approximately HK$1,093,000 (2004: HK$1,463,000).

The salaries and benefits of the Group's employees are kept at a competitive level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. The Group also operates a share option scheme where options to subscribe for shares may be granted to the executive Directors and full-time employees of the Group. The aim of the scheme is to recognise staff outstanding performance and help the Group retain key staff members.

Charges on group assets

As at 31 December 2005, none of the Group's assets was pledged (2004: Nil).

Future plans for material investments or capital assets

There was no specific plan for material investments and acquisition of material capital assets as at 31 December 2005, but the Group will continue to look for new business opportunities.

Gearing ratio

As at 31 December 2005, the Group's gearing ratio was approximately -1.08 (2004: -1.03), based on the total borrowings of approximately HK$20.57 million (2004: HK$15.17 million) and deficiencies in assets of approximately HK$19.13 million (2004: approximately HK$14.60 million).

Exposure to fluctuation in exchange rates

The Group's exposure to foreign currencies is limited to its investment in a foreign subsidiary, which is financed internally. Most of the Group's transactions, including borrowings, were conducted in Hong Kong dollars and Renminbi. The exchange rate of Renminbi to Hong Kong dollars has been relatively stable throughout the year although China introduced Renminbi in a managed floating exchange rate system based on market supply and demand and investment to a package of currencies on 21 July 2005. Moreover, it is also the Group's policy for each operating entity to borrow in local currencies, where possible, to minimise currency risk.

Contingent liabilities

As at 31 December 2005, the Group had no significant contingent liabilities (2004: Nil).

DIRECTORS

Executive Directors

Mr. Choi Koon Ming, aged 37, joined the Group on 8 August 2000 as the Chairman of the Company. Mr. Choi is responsible for formulating the overall strategic planning of the Group. He holds a Bachelor of Arts degree from the University of British Columbia. He is also an executive director of SW Kingsway Capital Holdings Ltd. He is the brother of Mr. Choi Koon Shum, the ultimate beneficial owner of Sun Wah.

Mr. Ng Kam Yiu, aged 43, joined the Group on 8 January 2003 as the Deputy Managing Director of the Company and he took up the position of Chief Executive Officer on 27 June 2005. Before Mr. Ng was formally appointed as the Chief Executive Officer, he, as the Deputy Managing Director, was also performing the duties of the Chief Executive Officer. Mr. Ng is responsible for statutory compliance and business development of the Group. He has extensive experience in auditing and accounting. He acts as director of a number of subsidiaries of Sun Wah Hi-Tech Holdings Limited. He is also a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. Chow Yeung Tuen, Richard, aged 49, joined the Group on 20 August 2001. Mr. Chow is a Certified Public Accountant with over 21 years of experience in auditing and taxation. Mr. Chow is also a Barrister of England and Wales. He acts as director of a number of subsidiaries of Sun Wah Group. He is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Company Secretaries and the Taxation Institute of Hong Kong. He holds a Master Degree in Business Administration from the University of East Asia, Macau.

Non-executive Director

Mr. Ha Kee Choy, Eugene, aged 49, joined the Group on 25 October 2000. Mr. Ha has over 14 years of experience in the finance and banking industry. He is a fellow member of the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. He holds a Master Degree in Business Administration from the Newport University in California.

Independent non-executive Directors

Mr. Wu Tak Lung, aged 40, joined the Group on 1 October, 2005. Mr Wu is a director of the corporate finance department of an investment bank and is also an independent non-executive director of two other listed companies, one of which is listed on the Main Board of the Stock Exchange and the other one is listed on GEM. Mr. Wu is a fellow member of the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong. Mr. Wu is also a full member of the Hong Kong Securities Institute and an associate member of the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Company Secretaries. He holds a bachelor degree in Business Administration from the Hong Kong Baptist University and a Master Degree in Business Administration from the University of Manchester and University of Wales.

Mr. Phillip King, aged 35 joined the Group on 1 October 2005. Mr. King is the Managing Director of a company listed on the Main Board of the Stock Exchange. He holds a Master Degree in Business Administration from the University of San Francisco (California) in the United States of America. He has over 15 years of experience in real estate investment, management and development.

Mr. Ng Cheuk Tat, Ambrose, aged 49, joined the Group on 28 February 2006. Mr. Ng is a practising solicitor and the sole proprietor of Messrs Ambrose Ng & Co., Solicitors. He received an honour degree of Bachelor of Arts (Business and Management) at the City University of Hong Kong and an honour degree of Bachelor of Laws and the Postgraduate Certificate in Laws at the University of Hong Kong.

SENIOR MANAGEMENT

Mr. Ling Chun Kwok, aged 44, is the financial controller, the qualified accountant and the company secretary of the Company. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He joined the Group in August 2005. He has extensive experience in auditing, accounting, financial management and company secretarial work. He served as a financial controller and qualified accountant in a company listed on GEM before joining the Group.

The Directors present their report and the audited financial statements of the Group for the year.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 17 to the financial statements. Although there is a new subsidiary established during the year, there were no significant changes in the nature of the Group's principal activities.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the financial statements.

RESULTS AND APPROPRIATIONS

The Group's loss for the year ended 31 December 2005 and the state of affairs of the Group and of the Company at that date are set out in the financial statements on pages 34 to 81.

The Directors do not recommend the payment of any dividend in respect of the year (2004: nil).

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

Details of movements in the Company's share capital, share options and convertible bonds during the year, together with the reasons thereof, are set out in notes 26, 27 and 24 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements and the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

In accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company ("**Shareholders**") provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business. The Company's share premium account, in the amount of HK$15,795,816 as at 30 June 2005, was subsequently cancelled and applied towards the elimination of part of the accumulated losses of the Company after the passing of a special resolution in the extraordinary general meeting of the Company held on 16 November 2005 ("**EGM**").

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Hence, as at 31 December 2005, the Company did not have any reserves available for distribution.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association ("**Articles**") or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and the assets and liabilities of the Group for the last five financial years as extracted from the audited financial statements of the Group is set out on page 82 of the annual report of the Company for the year ended 31 December 2005 ("**Annual Report**"), of which this report forms part.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentages of sales and purchases attributable to the Group's major customers and suppliers were as follows:

	Percentage of total purchases
(i) Purchases	
– the largest supplier	30%
– the five largest suppliers combined	86%

	Percentage of total sales
(ii) Sales	
– the largest customer	45%
– the five largest customers combined	98%

As far as the directors of the Company ("**Directors**") are aware, none of the Directors or any of their associates, or any Shareholders (which, to the knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers for the year.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors	
Mr. Choi Koon Ming ("**Mr. Choi**")	
Mr. Chow Yeung Tuen, Richard ("**Mr. Chow**")	
Mr. Ng Kam Yiu ("**Mr. Ng**")	
Mr. Luan Shusheng ("**Mr. Luan**")	(retired on 27 June 2005)
Non-executive Director	
Mr. Ha Kee Choy, Eugene ("**Mr. Ha**")	
Independent non-executive Directors	
Mr. Wu Tak Lung ("**Mr. Wu**")	(appointed on 1 October 2005)
Mr. Phillip King ("**Mr. King**")	(appointed on 1 October 2005)
Mr. Ng Cheuk Tat, Ambrose ("**Mr. Ambrose Ng**")	(appointed on 28 February 2006)
Mr. Cho Po Hong, Jimmy ("**Mr. Cho**")	(resigned on 30 September 2005)
Mr. Chik Sun Cheung ("**Mr. Chik**")	(resigned on 30 September 2005)
Ms. Ho Suk Yin *JP* ("**Ms. Ho**")	(resigned on 1 March 2006)

In accordance with article 86 (3) of the Articles, Mr. Wu, Mr. King and Mr. Ambrose Ng will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with articles 87 (1) and (2) of the Articles, Mr. Choi and Mr. Ha will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received written confirmations from each of its independent non-executive Directors in respect of their independence during the year and all independent non-executive Directors are still being considered to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 11 to 12 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Ha, Ms. Ho, Mr. Wu, Mr. King and Mr. Ambrose Ng has entered into a service contract with the Company for a term of one year which commenced on 27 June 2005, 27 June 2005, 1 October 2005, 1 October 2005 and 28 February 2006 respectively, and shall be subject to retirement by rotation in accordance with the Articles or earlier termination by either party giving to the other one calendar month's written notice in advance. These service contracts are exempt from the Shareholders' approval requirement under Rule 17.90 of GEM Listing Rules. Mr. Choi has not entered into any service contract with the Company.

Save as disclosed above, none of the Directors has a service contract with the Company or any of it subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory obligations.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 32 to the financial statements, no Director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND THE UNDERLYING SHARES OR ANY ASSOCIATED CORPORATIONS

As at 31 December 2005, the interests and short positions of each Director and chief executive in the share capital of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Cap. 571 of the Laws of the Hong Kong ("**SFO**"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

Long positions in derivative to the Shares:

The Company had 13,500,000 outstanding share options before the EGM. As the Share Consolidation became effective on 17 November 2005, 1,350,000 new share options had been allocated to the then holders of share options in the proportion of one new option for every ten old options held by them.

Name of Director	Capacity	Attributable interest to the Director	Number of Shares held	Number of share options (Note)	Number of Shares and underlying Shares
Mr. Choi	Beneficial owner	100%	–	750,000	750,000
Mr. Ng	Beneficial owner	100%	–	300,000	300,000
Mr. Chow	Beneficial owner	100%	–	300,000	300,000

Note: The interests of the Directors in the share options of the Company are separately disclosed in note 27 to the financial statements.

Save as disclosed above, none of the Directors had registered an interest or short positions in the Shares or underlying Shares or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the paragraph headed "Directors' interests and short positions in the Shares and the underlying Shares or any associated corporations" above and in the share option scheme disclosures in note 27 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their respective spouse or minor children to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Detailed disclosures relating to the Company's share option scheme are set out in note 27 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND THE UNDERLYING SHARES

Pursuant to an ordinary resolution passed in the EGM, Share Consolidation on the basis of every 10 issued and unissued shares of HK$0.05 each in the capital of the Company consolidating into one ordinary share of HK$0.50 each in the capital of the Company became effective on 17 November 2005. Hence, the total number of issued Shares was reduced from 753,720,000 to 75,372,000. Details are set out in the circular of the Company dated 24 October 2005.

As at 31 December 2005, the following interests of 5% or more in the issued share capital, share options and convertible bonds of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in the Shares and the underlying Shares:

Name of substantial Shareholder	Capacity and nature of interest	Number of Shares held	Percentage of issued share capital of the Company as at 31 December 2005	Number of underlying Shares held	Number of Shares and underlying Shares
global.com Investments Corp. *(Note 1)*	Beneficial owner	15,557,000	20.6%	–	15,557,000
Santana Enterprises Limited *(Note 1)*	Through a controlled corporation	15,557,000	20.6%	–	15,557,000
Yuen Fat Ching *(Note 1)*	Settlor	15,557,000	20.6%	–	15,557,000
Bornwise Investments Limited *(Note 2)*	Security interest	15,557,000	20.6%	–	15,557,000
Cheung Wo Sin *(Note 2)*	Through a controlled corporation	15,557,000	20.6%	–	15,557,000

Name of substantial Shareholder	Capacity and nature of interest	Number of Shares held	Percentage of issued share capital of the Company as at 31 December 2005	Number of underlying Shares held	Number of Shares and underlying Shares
Glory Cyber Company Limited ("**Glory Cyber**") *(Note 3)*	Beneficial owner	10,000,000	13.3%	–	10,000,000
Mr. Luan *(Note 3)*	Through a controlled corporation	10,000,000	13.3%	–	10,000,000
Sun Wah *(Note 4)*	Beneficial owner	9,547,400	12.7%	18,000,000	27,547,400
Sun Wah Hi-Tech Holdings Limited *(Note 4)*	Through a controlled corporation	9,547,400	12.7%	18,000,000	27,547,400
Choi Koon Shum *(Note 4)*	Through a controlled corporation	9,547,400	12.7%	18,000,000	27,547,400
Tai Lee Assets Limited *(Note 5)*	Beneficial owner	9,440,600	12.5%	–	9,440,600
Tsoi Siu Lan, Mazie *(Note 5)*	Through a controlled corporation	9,440,600	12.5%	–	9,440,600
Ceroilfood Finance Limited *(Note 6)*	Beneficial owner	8,302,200	11.0%	–	8,302,200
China National Cereals Oils and Foodstuffs Import and Export Corporation *(Note 6)*	Through a controlled corporation	8,302,200	11.0%	–	8,302,200

Notes:

(1) global.com Investments Corp. is a company wholly owned by Santana Enterprises Limited as the trustee of The YFC Unit Trust, 99.9% of the units of which are owned by The YFC Family Trust, a discretionary trust of which the children of Mr. Yuen Fat Ching ("**Mr. Yuen**") are the only beneficiaries. The balance of 0.1% of the units of The YFC Unit Trust is held by Mr. Yuen's mother. Mr. Yuen is the settlor of The YFC Family Trust.

(2) Bornwise Investments Limited is a company incorporated in the British Virgin Islands and beneficially owned by Mr. Cheung Wo Sin. Bornwise Investments Limited and Mr. Cheung Wo Sin are deemed to be interested in 15,557,000 Shares and as such shares have been pledged to Bornwise Investments Limited.

(3) Glory Cyber is a company incorporated in Hong Kong with limited liability, the issued share capital of which is owned as to 70% by Mr. Luan. The indirect interest of Mr. Luan in the 10,000,000 Shares is held by Glory Cyber.

(4) Sun Wah is a wholly owned subsidiary of Sun Wah Hi-Tech Holdings Limited, which is a wholly and beneficially owned by Mr. Choi Koon Shum, the brother of Mr. Choi Koon Ming. As at 31 December 2005, Sun Wah is also the holder of convertible bonds of an aggregate principal amount of HK$9 million issued by the Company, upon exercise of the conversion rights attaching thereto would entitle Sun Wah to subscribe for 18,000,000 ordinary shares (as adjusted by the Share Consolidation), representing approximately 23.88% of the issued share capital of the Company.

(5) Tai Lee Assets Limited is beneficially owned by Ms. Tsoi Siu Lan, Mazie, who is the sister of Mr. Choi Koon Ming.

(6) Ceroilfood Finance Limited is a wholly owned subsidiary of China National Cereals Oils and Foodstuffs Import and Export Corporation, a state-owned enterprise, which is principally engaged in the import and export of cereals, oil and foodstuffs in the People's Republic of China.

Save as disclosed above, no person other than the Directors, whose interests are set out in the paragraph headed "Directors' interests and short positions in the Shares and the underlying Shares or any associated corporations" and shareholders, whose interests are set out in the paragraph headed "Substantial Shareholders' interests and short positions in the Shares and the underlying Shares" above, had registered an interest or short position in the Shares or the underlying Shares that was required to be recorded pursuant to Section 336 of the SFO.

ADVANCE TO ENTITIES

The Group recorded a net deficiency in assets of approximately HK$19.1 million as at 31 December 2005. As the net tangible value of the Group was negative, the other receivables ("**Other Receivables**") of the Group as at 31 December 2005 gave rise to a disclosure obligation under Rule 17.22 of the GEM Listing Rules, the information specified under Rule 17.17 was included as follows:

Other Receivables	**As at 31 December 2005** **HK$'000**
Utility deposits *(Note 1)*	6
Deposits *(Note 2)*	47
Prepayments *(Note 3)*	108
Others *(Note 4)*	4
	165

Notes:

1. The utility deposits paid comprise the following items:

	HK$'000
Electricity deposits paid to The Hongkong Electric Company Limited	4
Water deposit paid to Water Supplies Department	1
IDD deposits for Directors paid to SmarTone Mobile Communications Limited	1
	6

2. The deposits paid comprise the following item:

	HK$'000
Deposits paid to Conyers Dill & Pearman, Hong Kong in relation to capital reorganisation	47
	47

3. The breakdown of the prepayments is as follows:

	HK$'000
Annual listing fee paid to the Stock Exchange	96
Computer server maintenance paid to Finetop Technology Limited	3
Rental of dedicated Linux service server paid to Finetop Technology Limited	3
Annual payment for commercial 6M broadband services to PCCW Limited	2
Annual rent for web host paid to Pacificnet Hosting Limited	2
Insurance of office paid to Mansion Insurance Service Limited	1
Others	1
	108

4. Others:

	HK$'000
Interests receivable from fixed deposit in Fubon Bank (Hong Kong) Limited	4
	4

The Other Receivables were paid by the Group as deposits or under the pre-existing obligations made in the ordinary course of business of the Group and were unsecured and non-interest bearing.

CONTRACT OF SIGNIFICANCE

During the year, the Group did not enter into any contract of significance with its controlling Shareholders or any of its subsidiaries.

During the year, no contract of significance for the provision of services to the Group by a controlling Shareholder or any of its subsidiaries was made.

SUBSEQUENT EVENT

The issued share capital of the Company, pursuant to a special resolution passed on 16 November 2005 at the EGM and with the sanction of an Order of the Grand Court of the Cayman Islands on 10 February 2006 and completion of certain procedural requirements, was reduced from HK$37,686,000 divided into 75,372,000 ordinary shares of HK$0.50 each to HK$753,720 divided into 75,372,000 ordinary shares of HK0.01 each ("**Par Value Reduction**"). Upon the Par Value Reduction becoming effective on 15 February 2006, all the authorised but unissued share capital of the Company was cancelled and the authorised share capital of the Company was immediately restored to the original amount of HK$100,000,000 by the creation of the requisite number of new shares of HK$0.01 each.

AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference in compliance with the GEM Listing Rules.

The primary duties of the Audit Committee are to review and supervise the financial reporting process, internal control and risk management of the Group. During the year, the Audit Committee held four meetings. The Group's financial statements for the year ended 31 December 2005 have been reviewed by the Audit Committee which is of the opinion that such statements comply with the applicable accounting standards, the Stock Exchange requirements and other legal requirements, and that adequate disclosures have been made.

Further details of the Audit Committee are set out in the Corporate Governance Report included in the Annual Report.

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year are set out in note 32 to the financial statements. Save as disclosed therein, there were no other transactions to be disclosed as connected and related party transactions in accordance with the requirements of the GEM Listing Rules and accounting principles generally accepted in Hong Kong.

COMPETITION AND CONFLICT OF INTERESTS

Mr. Luan served as a Director for the period from 1 January 2005 to 27 June 2005 during the year. Based on the latest information available to the Company, Mr. Luan was then in control of a group of companies in the PRC and Hong Kong ("**GF Group**") principally engaged in the software development and trading of computer hardware and software. Glory Cyber, being a substantial shareholder of the Company, was one of the members of the GF Group. The main product of the GF Group was logistics software, the main function of which was to assist an enterprise transmitting and managing the flow of capital, inventories, information and human resources. The target customers of GF Group were companies based in the PRC. During the year, the products of the Group included Internet-based and Windows-based software applications. The targeted customers of the Group were private and public sectors in Hong Kong and the PRC.

Save as disclosed above, none of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the businesses of the Group or has any other conflict of interests with the Group.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 24 to 32 of the Annual Report.

AUDITORS

Ernst & Young resigned as the auditors of the Company with effect from 10 December 2004 and Grant Thornton was appointed on 6 January 2005 by the Shareholders to fill the casual vacancy so arised. There had been no other changes of auditors in the preceding three financial years. An ordinary resolution for the Company to re-appoint Grant Thornton as the auditors of the Company will be proposed at the forthcoming annual general meeting.

By Order of the Board
Choi Koon Ming

Chairman

Hong Kong
22 March 2006

INTRODUCTION

The Company adopted the Code on Corporate Governance Practices ("**Corporate Governance Code**") on 27 June 2005 and has taken effective measures to ensure that it is in compliance with the code provisions and as far as reasonably practicable the recommended best practices of the Corporate Governance Code. In the opinion of the Board, the Company has complied with the code provisions and a majority of the recommended best practices of the Corporate Governance Code during the year.

THE BOARD AND THE MEETINGS OF THE BOARD

The Board has overall responsibility for the stewardship of the Group, including the responsibilities for the adoption of long-term strategies and appointing and supervising senior management to ensure that the operation of the Group is conducted in accordance with the objective of the Group. The Senior Management Committee was established on 27 June 2005 and it is consisted of Mr. Choi Koon Ming, the Chairman of the Group and two executive Directors namely Mr. Ng Kam Yiu and Mr. Chow Yeung Tuen, Richard.

The Board currently comprises a combination of executive Directors and non-executive Directors (including three independent non-executive Directors and one non-executive Director). In order to ensure that the Company has an independent and effective Board, the segregation of the roles of the Chairman and the Chief Executive Officer, each with clear responsibilities, has been in place. Currently, the Chairman of the Group is Mr. Choi Koon Ming and the Chief Executive Officer of the Group is Mr. Ng Kam Yiu. Mr. Ng joined the Group on 8 January 2003 as the Deputy Managing Director and he took up the position of Chief Executive Officer on 27 June 2005. Before Mr. Ng was formally appointed as the Chief Executive Officer, he, as the Deputy Managing Director, was also performing the duties of the Chief Executive Officer.

The Company has appointed three independent non-executive Directors whom the Board considers to have appropriate and sufficient experience and qualifications to carry out their duties so as to protect the interests of the shareholders of the Company. Currently, Mr. Wu Tak Lung, Mr. Phillip King (both of them were appointed on 1 October 2005) and Mr. Ng Cheuk Tat, Ambrose (appointed on 28 February 2006) are the independent non-executive Directors. All of them are under a term of service of one year commencing from the date of their respective appointment or the date of entering into their respective service contract. Mr. Ha Kee Choy, Eugene was appointed as a non-executive Director on 25 October 2000 and he is currently under a service contract with the Company with a term of one year the term starting from 27 June 2005. Each of the non-executive Director and independent non-executive Directors is subject to retirement by rotation and re-election at the annual general meeting in accordance with the articles of association of the Company ("**Articles**"), provided that the appointment may be terminated by the Company or the Director concerned with a written notice of not less than one month unless both parties agreed otherwise.

During the year, the Board underwent the following changes:

– Mr. Luan Shusheng retired from the office of executive Director at the annual general meeting held on 27 June 2005;

– due to personal reasons, Mr. Cho Po Hong, Jimmy, Mr. Chik Sun Cheung and Ms. Ho Suk Yin *JP*, resigned from their offices of independent non-executive Directors on 30 September 2005, 30 September 2005 and 1 March 2006 respectively; and

– Mr. Wu Tak Lung, Mr. Phillip King and Mr. Ng Cheuk Tat, Ambrose were appointed as the independent non-executive Directors on 1 October 2005, 1 October 2005 and 28 February 2006 respectively in contemplation of the resignations of the independent non-executive Directors referred to above.

The Company has at least three independent non-executive Directors at all times during the year.

There is no family relationship between any of our Directors or executive officers. All of them are free to exercise their independent judgement. Prior to their respective appointment, each of the independent non-executive Directors has submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence. The Company has also received written confirmations from all independent non-executive Directors in respect of their independence during the year and all independent non-executive Directors are still being considered to be independent.

In accordance with the Articles, one-third of the Directors are subject to retirement by rotation or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from the office and being eligible offer themselves for re-election. The Directors to be retired by rotation shall be those who have been longest in office since their last appointment or re-appointment or those who were appointed by the Board during the year to fill any casual vacancy.

The Board held a meeting for each quarter. Hence, the Board held four regular board meetings during the year. The Directors participated in person, by phone or through other electronic means of communication.

During the year, four regular board meetings were held and the following is an attendance record of the meetings:

Directors	No. of meetings attended
Executive Directors	
Choi Koon Ming	4/4
Ng Kam Yiu	4/4
Chow Yeung Tuen, Richard	4/4
Luan Shu Sheng (retired on 27 June 2005)	0/2
Non-executive Director	
Ha Kee Choy, Eugene	0/4
Independent non-executive Directors	
Wu Tak Lung (appointed on 1 October 2005)	1/1
Phillip King (appointed on 1 October 2005)	1/1
Ho Suk Yin, JP (resigned on 1 March 2006)	1/4
Chik Sun Cheung (resigned on 30 September 2005)	3/3
Cho Po Hong, Jimmy (resigned on 30 September 2005)	3/3

Apart from the above regular board meetings of the year, the Board met on other occasions when a board-level decision on a particular matter was required. The Directors receive details of agenda items for decision and minutes of committee meetings in advance of each board meeting.

During the regular meetings of the Board, the Directors discuss and formulate the overall strategies of the Group, monitor financial performances and discuss the annual, interim and quarterly results as well as other significant matters. Execution of daily operational matters is delegated to the management.

In case where conflict of interest arises involving a substantial shareholder or a Director, such matter will be discussed through an actual meeting and will not be dealt with by written resolutions. Independent non-executive Directors with no conflict of interest will be present at meetings dealing with such conflict issues.

The board committees, including the Audit Committee and the Remuneration Committee, have all adopted the applicable practices and procedures used in board meetings for all committee meetings.

NOMINATION OF DIRECTORS

The selection and appointment of a Director and the Directors' independence are determined by the full Board. The Board will also review the composition (including skills, knowledge and experience) of the Board regularly to ensure its members can provide balanced skills and experience. The criteria and the nomination procedures of a new Director are set out herein below:-

a) criteria of a Director:

   i) satisfying the independence requirement in the case of an independent non-executive Director; and

   ii) with sufficient and relevant educational background, knowledge and working experience.

b) nomination procedures:

   i) an interview will be conducted with the prospective candidate;

   ii) a meeting of the Board will be convened to consider and, if thought fit, to approve the appointment of the new Director; and

   iii) an introduction package will be provided by the Company to the new Director so that he or she can have a better understanding of the background and the business activities of the Company.

In October 2005, Mr. Wu Tak Lung and Mr. Phillip King were appointed as the independent non-executive Directors in accordance with the above procedures. A meeting of the Board in relation to the resignation of Mr. Chik Sun Cheung and Mr. Cho Po Hong, Jimmy from the offices of and the appointment of Mr. Wu Tak Lung and Mr. Phillip King as the independent non-executive Directors was held on 1 October 2005. The Board is satisfied with the current system of Director's nomination and appointment and therefore it does not consider the establishment of a nomination committee necessary.

The Audit Committee and the Remuneration Committee have adopted specific terms of reference clearly defining their respective powers and responsibilities. These committees are required by their terms of reference to report to the Board in relation to their decisions, findings or recommendations, and in certain specific situations, to seek the Board's approval before taking any actions.

The Board reviews, on a yearly basis, all delegations by the Board to each of the committees to ensure that such delegations are appropriate and continue to be beneficial to the Group as a whole.

REMUNERATION COMMITTEE

The Remuneration Committee was established on 27 June 2005, comprising three independent non-executive Directors and the Chairman of the Board. The chairman of the committee is Mr. Wu Tak Lung, an independent non-executive Director, and other members include Mr. Phillip King and Mr. Ng Cheuk Tat, Ambrose, both of them are also the independent non-executive Directors, and Mr. Choi Koon Ming, the Chairman of the Board.

The role and functions of the Remuneration Committee include the determination of the specific remuneration packages of all executive Directors, which include benefits in kind, pension rights and compensation payments, comprising any compensation payable for loss or termination of their office or appointment. The Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration. The Remuneration Committee also collects and reviews the remuneration plan and policy for all executive Directors and the senior management of the Group by reference to the prevailing rate with companies listed on GEM.

During the year ended 31 December 2005, no physical meeting has been held by the members of the Remuneration Committee since its establishment on 27 June 2005. The decisions of the Remuneration Committee in respect of the appointment of the two independent non-executive Directors, namely Mr. Phillip King and Mr. Wu Tak Lung, as members of the Remuneration Committee and the nomination of Mr. Wu Tak Lung as the chairman of the Remuneration Committee were approved by way of written resolutions passed by all the members of the Remuneration Committee on 1 October 2005.

During the year, the Remuneration Committee underwent the following changes:

– due to personal reasons, Mr. Cho Po Hong, Jimmy resigned from the office of chairman of the Remuneration Committee on 30 September 2005 and Mr. Chik Sun Cheung and Ms. Ho Suk Yin, *JP* resigned from the offices of members of Remuneration Committee on 1 October 2005 and 1 March 2006 respectively; and

– Mr. Wu Tak Lung was appointed as the chairman of the Remuneration Committee on 1 October 2005 and Mr. Phillip King and Mr. Ng Cheuk Tat, Ambrose were appointed as members of the Remuneration Committee on 1 October 2005 and 28 February 2006 respectively in contemplation of the above resignations.

AUDITORS' REMUNERATION

As at 31 December, 2005, the fee payable to the auditors in respect of the audit and non-audit services provided by the auditors to the Group were as follows:–

Type of services	Amount (HK$)
Audit services	182,000
Non-audit services	3,000

AUDIT COMMITTEE AND ACCOUNTABILITY

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The Board is also responsible for preparing the accounts of the Company, which give a true and fair view of the financial position of the Group on a going concern basis, and other price-sensitive announcements and financial disclosures. The management provides all relevant information and records to the Board enabling the Board to make the above assessment and to prepare the accounts and other financial disclosures.

In full compliance with rule 5.28 of GEM Listing Rules, the Audit Committee, which has been established since the listing of the Company, is currently chaired by Mr. Wu Tak Lung, an independent non-executive Director, with the other members being Mr. Phillip King and Mr. Ng Cheuk Tat, Ambrose, both of them are also the independent non-executive Directors.

During the year, the following persons served as the members of the Audit Committee:

Name	Service period
Mr. Cho	From 1 January 2005 to 30 September 2005
Mr. Chik	From 1 January 2005 to 30 September 2005
Ms. Ho	From 1 January 2005 to 31 December 2005
Mr. Wu	From 1 October 2005 to 31 December 2005
Mr. King	From 1 October 2005 to 31 December 2005

The Audit Committee has three members comprising the three independent non-executive Directors. As at the date of this report, the Audit Committee comprises Mr. Wu (Chairman of the Audit Committee), Mr. King and Mr. Ambrose Ng. Ms. Ho tendered her resignation as an independent non-executive Director and a member of the Audit Committee of the Company with effect from 1 March 2006 due to personal reasons. Mr. Ambrose Ng was appointed as an independent non-executive Director and a member of the Audit Committee of the Company with effect from 28 February 2006.

During the year, no former partner of the Company's existing auditing firm acted as a member of the Audit Committee within one year on the date of his ceasing to be a partner or had any financial interest in the auditing firm.

There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors during the year.

The Audit Committee's primary duties include ensuring the Group's financial statements, annual, interim and quarterly reports and the auditors' report present a true and balanced assessment of the Group's financial position, reviewing the Group's financial control, internal control and risk management systems and reviewing the Group's financial and accounting policies and practices.

The work done by the Audit Committee during the year ended 31 December 2005 are set out as follows:-

a) reviewing and recommending the quarterly report, interim report and annual report for the period or year to the Board for approval;

b) discussing the application of the new accounting policy with the external auditors;

c) recommending the re-appointment of the auditors to the Board for approval; and

d) reviewing the internal control system and the recommendation made by the external auditors.

The Audit Committee is provided with sufficient resources enabling it to discharge its duties.

For the financial year ended 31 December 2005, the Audit Committee held four meetings. The individual attendance record of each member of the Audit Committee is as follows:

Attendants	Number of meetings attended
Wu Tak Lung (appointed on 1 October 2005)	1/1
Phillip King (appointed on 1 October 2005)	1/1
Ho Suk Yin, *JP* (resigned on 1 March 2006)	4/4
Chik Sun Cheung (resigned on 30 September 2005)	3/3
Cho Po Hong, Jimmy (resigned on 30 September 2005)	3/3

The Company Secretary keeps full minutes of all the meetings of the Audit Committee. In line with practices of the meetings of the Board and other committees, draft and final versions of the minutes of the meetings of the Audit Committee are circulated to all members of the Audit Committee for comments, approval and record as soon as practicable after each meeting.

COMPLIANCE WITH THE REQUIRED STANDARD OF DEALINGS IN SECURITIES TRANSACTIONS BY DIRECTORS

During the year, the Group adopted the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' securities transactions in securities of the Company. Upon the Group's specific enquiry, each Director confirmed that during the year ended 31 December 2005, he or she had fully complied with the required standard of dealings and there was no event of non-compliance.

DIRECTORS' AND AUDITORS' ACKNOWLEDGEMENT

All Directors acknowledge their responsibility for preparing the accounts for the year ended 31 December 2005.

The auditors of the Company acknowledge their reporting responsibilities in the auditors' report on the financial statements for the year ended 31 December 2005.

INTERNAL CONTROL

The Board has conducted a review of the effectiveness of the Group's internal control system, covering its financial, operational, compliance control and risk management functions.

By Order of the Board
Choi Koon Ming
Chairman

Hong Kong
22 March 2006

Certified Public Accountants
Member of Grant Thornton International

Grant Thornton
均富會計師行

To the members of Glory Future Group Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 34 to 81 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants
Hong Kong

22 March 2006

Consolidated Income Statement

For the year ended 31 December 2005

	Notes	2005 HK$'000	(Restated) 2004 HK$'000
Revenue	7	**630**	133
Cost of sales		**(566)**	(324)
Gross profit/(loss)		**64**	(191)
Other operating income	8	**39**	24
Selling and distribution expenses		**–**	(129)
Administrative expenses		**(2,742)**	(2,637)
Operating loss		**(2,639)**	(2,933)
Finance costs	9	**(1,912)**	(2,360)
Loss before income tax	10	**(4,551)**	(5,293)
Income tax expense	11	**–**	–
Loss for the year	12	**(4,551)**	(5,293)
Attributable to :			
Equity holders of the Company		**(4,526)**	(5,293)
Minority interests		**(25)**	–
Loss for the year		**(4,551)**	(5,293)
Loss per share for loss attributable to the equity holders of the Company during the year	13		
– Basic		**(HK6.0 cents)**	(HK7.0 cents)
– Diluted		**N/A**	N/A

Consolidated Balance Sheet

As at 31 December 2005

	Notes	2005 HK$'000	(Restated) 2004 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	60	118
Current assets			
Trade receivables	18	187	–
Prepayments, deposits and other receivables		165	22
Cash and cash equivalents	19	1,854	893
		2,206	915
Current liabilities			
Trade payables	20	30	–
Other payables and accrued expenses		801	457
Other loan	21	–	71
Unsecured and interest-free advances	22	–	843
Loans from a shareholder	23	12,089	–
Convertible bonds	24	7,980	6,969
		20,900	8,340
Net current liabilities		(18,694)	(7,425)
Total assets less current liabilities		(18,634)	(7,307)
Non-current liabilities			
Convertible bonds	24	–	6,894
Due to minority shareholders of subsidiaries	25	499	401
		499	7,295
Net liabilities		(19,133)	(14,602)
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	26	37,686	37,686
Reserves	28	(56,819)	(52,288)
Total equity		(19,133)	(14,602)

Choi Koon Ming
Director

Chow Yeung Tuen, Richard
Director

Balance Sheet

As at 31 December 2005

	Notes	2005 HK$'000	(Restated) 2004 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investments in subsidiaries	17	–	–
Current assets			
Prepayments and other receivables		147	–
Cash and cash equivalents	19	1,261	588
		1,408	588
Current liabilities			
Other payables and accrued expenses		338	5
Due to a subsidiary	17	3	3
Unsecured and interest-free advances	22	–	843
Loans from a shareholder	23	11,487	–
Convertible bonds	24	7,980	6,969
		19,808	7,820
Net current liabilities		(18,400)	(7,232)
Total assets less current liabilities		(18,400)	(7,232)
Non-current liabilities			
Convertible bonds	24	–	6,894
Net liabilities		(18,400)	(14,126)
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	26	37,686	37,686
Reserves	28	(56,086)	(51,812)
Total equity		(18,400)	(14,126)

Choi Koon Ming
Director

Chow Yeung Tuen, Richard
Director

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Notes	2005 HK$'000	(Restated) 2004 HK$'000
Cash flows from operating activities			
Loss before income tax		(4,551)	(5,293)
Adjustments for:			
Depreciation	10	83	76
Interest income	8	(18)	(5)
Interest expense	9	1,912	2,360
Operating loss before working capital changes		(2,574)	(2,862)
Increase in trade receivables		(187)	–
(Increase)/Decrease in prepayments, deposits and other receivables		(143)	169
Increase/(Decrease) in trade payables		30	(37)
Increase/(Decrease) in other payables and accrued expenses		344	(395)
Decrease in amount due to a related company		–	(113)
Cash used in operations		(2,530)	(3,238)
Interest paid		(1,549)	(271)
Net cash used in operating activities		(4,079)	(3,509)
Cash flows from investing activities			
Purchases of property, plant and equipment	33	–	(23)
Interest received		18	5
Net cash from/(used in) investing activities		18	(18)
Cash flows from financing activities			
(Decrease)/Increase in other loan		(71)	71
Redemption of convertible bonds		(7,000)	–
Advance of loans from a shareholder		12,000	–
Advance from a minority shareholder		98	–
Net cash from financing activities		5,027	71
Net increase/(decrease) in cash and cash equivalents		966	(3,456)
Cash and cash equivalents at beginning of year		893	4,349
Effect of foreign exchange rate changes, net		(5)	–
Cash and cash equivalents at end of year		1,854	893

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Equity attributable to equity holders of the Company						
	Share capital HK$'000	Share premium account HK$'000	Convertible bond equity reserve HK$'000	Translation reserve HK$'000	Accumulated losses HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2004, as previously reported	37,686	15,796	–	(10)	(66,642)	–	(13,170)
Effect of initial adoption of HKAS 32 (note 3.6)	–	–	4,875	–	(1,014)	–	3,861
At 1 January 2004, as restated	37,686	15,796	4,875	(10)	(67,656)	–	(9,309)
Loss for the year (Total recognised income and expense for the year)	–	–	–	–	(5,293)	–	(5,293)
At 31 December 2004, as restated	37,686	15,796	4,875	(10)	(72,949)	–	(14,602)
At 31 December 2004, as previously reported	37,686	15,796	–	(10)	(70,407)	–	(16,935)
Effect of initial adoption of HKAS 32 (note 3.6)	–	–	4,875	–	(2,542)	–	2,333
At 31 December 2004 and 1 January 2005, as restated	37,686	15,796	4,875	(10)	(72,949)	–	(14,602)
Currency translation (Net loss recognised directly in equity)	–	–	–	(5)	–	–	(5)
Loss for the year	–	–	–	–	(4,526)	(25)	(4,551)
Total recognised income and expense for the year	–	–	–	(5)	(4,526)	(25)	(4,556)
Capital contribution from a minority shareholder of a subsidiary	–	–	–	–	–	25	25
Redemption of convertible bonds	–	–	(1,656)	–	1,656	–	–
Share premium cancellation (note 28)	–	(15,796)	–	–	15,796	–	–
At 31 December 2005	37,686	–*	3,219*	(15)*	(60,023)*	–	(19,133)

* The aggregate amount of these balances of HK$56,819,000 (2004: HK$52,288,000 (restated)) in deficit is included as reserves in the consolidated balance sheet.

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (1998 Revision) of the Cayman Islands. The address of the Company's registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies and its principal place of business is 7th Floor, San Kei Tower, 56-58 Yee Wo Street, Causeway Bay, Hong Kong. The Company's shares are listed on the Growth Enterprise Market ("**GEM**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

During the year, the Group was involved in the following principal activities:

- provision of Internet-based and Windows-based applications, web page design and website maintenance services

- provision of system integration services and information technology consultancy services

The financial statements on pages 34 to 81 have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("**GEM Listing Rules**").

The financial statements for the year ended 31 December 2005 were approved by the Board on 22 March 2006.

2. BASIS OF PREPARATION

The financial statements have been prepared on a going concern basis, notwithstanding that the Group had net current liabilities and net deficiencies in assets as at 31 December 2005. In the opinion of the Directors, the liquidity of the Group can be maintained in the forthcoming year, after taking into consideration the undertaking made by Sun Wah Net Investment Limited ("**Sun Wah**"), a substantial shareholder of the Company, to provide continual financial support to the Group and the Company so as to enable the Group and the Company to continue its day to day operations as a viable going concern up to 31 December 2006 inclusive.

The Directors are of the opinion that, in view of the measure taken above, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, the financial statements have been prepared on a going concern basis.

3. ADOPTION OF NEW OR REVISED HKFRSs

From 1 January 2005, the Group has adopted the new or revised standards and interpretations of HKFRSs, which are relevant to its operations. This includes the following new, revised and renamed standards:

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HK(SIC) Int-15	Operating Leases – Incentives

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment and accordingly the 2004 financial statements and their presentation have been amended in accordance with HKAS 8. Due to the change in accounting policies, the 2004 comparatives contained in these financial statements differ from those published in the financial statements for the year ended 31 December 2004.

3. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

Significant effects on current, prior or future periods arising from the first-time application of the standards listed above in respect to presentation, recognition and measurement of accounts are described in the following notes:

3.1 Adoption of HKAS 1

The application of HKAS 1 led to an update of the presentation of financial statements. Minority interests are now included as a separate line item within equity. Profit and loss attributable to minority interests and that attributable to equity holders of the Company is now presented as an allocation of the net result of the year.

3.2 Adoption of HKAS 32

HKAS 32 requires all disclosure and presentation rules regarding financial instruments to be applied retrospectively. The Group has separately recognised the financial liability and equity components of the convertible bonds on adoption of HKAS 32 and the comparative figures have been restated.

3.3 Adoption of HKFRS 2

Prior to the adoption of HKFRS 2 on 1 January 2005, the Group did not recognise the financial effect of share options until they were exercised.

HKFRS 2 requires all goods and services received in the course of share-based payment transactions to be measured at fair value and recognised as an expense in the financial statements with a corresponding credit to equity, unless the transaction is cash settled share-based payment. The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted which is determined at the date of grant of the share options.

According to the transitional provisions of HKFRS 2, the Group applies HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not vested on 1 January 2005.

All equity-settled share-based payments granted by the Group after 7 November 2002 had vested before 1 January 2005. Accordingly, the adoption of HKFRS 2 had no effect on the Group's financial statements. The new accounting policy for equity-settled share-based payments are summarised in note 4.15 to the financial statements.

3. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

3.4 Other standards adopted

The adoption of other new or revised standards or interpretations did not result in significant alterations to the Group's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these other standards did not result in any changes to the amounts or disclosures in these financial statements.

3.5 The effect on the adoption of HKAS 32 on consolidated income statement is summarised below:

	2005 HK$'000	2004 HK$'000
Increase in finance costs	1,263	1,528
Total increase in loss for the year	1,263	1,528
Increase in loss per share *		
– Basic	HK1.7 cents	HK2.0 cents
– Diluted	N/A	N/A

* The number of shares used in the calculation has taken into account of the Share Consolidation during the year as further detailed in note 26 to the financial statements.

3.6 The effect on the adoption of HKAS 32 on consolidated balance sheet is summarised below:

	2005 HK$'000	2004 HK$'000
At 1 January		
Increase/(Decrease) in equity:		
Convertible bond equity reserve	4,875	4,875
Accumulated losses	(2,542)	(1,014)
At 31 December		
Increase/(Decrease) in liabilities/equity:		
Accrued expenses	(50)	(196)
Convertible bonds (liability components)	(1,020)	(2,137)
Convertible bond equity reserve	3,219	4,875
Accumulated losses	(2,149)	(2,542)

3. ADOPTION OF NEW OR REVISED HKFRSs (Continued)

3.7 New Standards or Interpretations that have been issued but are not yet effective

The Group has not early adopted the following Standards or Interpretations that have been issued but are not yet effective. The Directors anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures [1]
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures [2]
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation [2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions [2]
HKAS 39 (Amendment)	The Fair Value Option [2]
HKAS 39 & HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts [2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources [2]
HKFRS 7	Financial Instruments – Disclosures [1]
HK(IFRIC) – Int 4	Determining whether an Arrangement contains A Lease [2]
HK(IFRIC) – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds [2]
HK(IFRIC) – Int 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment [3]
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [4]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2006.
3 Effective for annual periods beginning on or after 1 December 2005.
4 Effective for annual periods beginning on or after 1 March 2006.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

The financial statements have been prepared on the historical cost basis.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

4.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

4.3 Subsidiaries

Subsidiaries are entities over which the Company has the power to control the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.4 Foreign currency translation

The financial statements are presented in Hong Kong dollars (HK$), which is also the functional currency of the Company.

In the separate financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement under "other operating income" or "administrative expenses", respectively.

In the consolidated financial statements, all separate financial statements of subsidiaries, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the balance sheet date. Income and expenses have been converted into Hong Kong dollars at the average rates over the reporting period. Any differences arising from this procedure have been dealt with in the translation reserve in equity.

4.5 Income and expense recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following bases:

(a) revenue from the rendering of services, when the relevant services have been rendered; and

(b) interest income, on a time proportion basis using the effective interest method.

Operating expenses are charged to the income statement when incurred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is provided to write off the cost over their estimated useful lives using the straight-line method, as follows:

Furniture, fixtures and fittings	2 – 5 years
Computer and office equipment	2 – 3 years

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

4.7 Impairment testing of property, plant and equipment

The Group's property, plant and equipment are subject to impairment testing.

Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. An impairment loss is recognised as an expense immediately. An impairment loss is reversed in subsequent period if there has been a change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.8 Leases

Operating lease payments are recognised as an expense on a straight-line basis. Affiliated costs, such as maintenance and insurance, are expensed as incurred.

4.9 Financial assets

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Any changes in their value are recognised in income statement.

Trade receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

4.10 Accounting for income taxes

Income tax comprises current and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. However, in accordance with the rules set out in HKAS 12, no deferred taxes are recognised in relation to temporary differences associated with shares in subsidiaries if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.10 Accounting for income taxes (Continued)

Deferred tax liabilities are always provided for in full. Deferred tax assets are recognised to the extent that it is probable that they will be able to be offset against future taxable income. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Most changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that is charged directly to equity are charged or credited directly to equity.

4.11 Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand as well as highly liquid investments such as bank deposits.

4.12 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognised as an expense.

4.13 Convertible bonds

Convertible bonds issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate for similar non-convertible debts. The difference between the proceeds of the issue of the convertible bond and the fair value assigned to the liability component, representing the call option for conversion of the bond into equity, is included in equity as convertible bond equity reserve.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.13 Convertible bonds (Continued)

The liability component is subsequently carried at amortised cost using the effective interest method. The equity component will remain in equity until conversion or redemption of the bond.

When the bond is converted, the convertible bond equity reserve and the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the convertible bond equity reserve is released directly to retained profits/accumulated losses.

4.14 Pension obligations

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. Contributions are made based on a percentage of the employees' basic salary to the maximum mandatory contributions as required by the MPF Scheme and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiary is required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.15 Share-based employee compensation

Under the transitional provision provided for under HKFRS 2, all share-based payment arrangements granted after 7 November 2002 and have not yet vested at 1 January 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

All share-based compensation is ultimately recognised as an expense in income statement with a corresponding increase in equity (share option reserve). If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally estimated.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are reallocated to share capital with any excess being recorded as share premium.

4.16 Financial liabilities

The Group's financial liabilities include trade payables, other payables and accrued expenses, other loan, unsecured and interest-free advances, loans from a shareholder, convertible bonds and amounts due to minority shareholders of subsidiaries.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

Trade payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.17 Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segment be presented as the primary reporting format and geographical segment as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets for business segment consist primarily of property, plant and equipment and trade receivables and exclude prepayments, deposits and other receivables, cash and cash equivalents. Segment liabilities for business segment comprise operating liabilities and mainly exclude loans from a shareholder, convertible bonds and balance due to minority shareholders of subsidiaries.

Capital expenditure comprises additions to property, plant and equipment.

In respect of geographical segment reporting, sales are based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

4.18 Related parties

A party is considered to be related to the Group if:

(a) directly, or indirectly through one or more intermediaries, the party:

- (i) controls, is controlled by, or is under common control with, the Group;
- (ii) has an interest in the Group that gives it significant influence over the Group; or
- (iii) has joint control over the Group;

(b) the party is a jointly-controlled entity;

(c) the party is an associate;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.18 Related parties (Continued)

(f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of receivables

The Group's management determines impairment of receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the provision at the balance sheet date.

(b) Valuation of convertible bonds

The Group's management determined the fair values of the liability components of the convertible bonds by using the income approach which is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the non-convertible bonds than an amount equal to the present worth of anticipated future benefits (income) from the same or substantially similar non-convertible bonds with a similar risk profile.

6. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operation and the products and services they provide. Each of the Group's business segment represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments are summarised as follows:

(a) the Internet-based and Windows-based applications, web page design and website maintenance services segment provides application and web page development work and monthly services for maintaining and updating website services;

(b) the system integration segment provides services including hardware and software management services; and

(c) the information technology consultancy services segment provides services relating to the implementation and application of computer systems.

In determining the Group's geographical segments, revenue is attributable to the segments based on the location of the customers, and assets are attributable to the segments based on the location of the assets.

There was no intersegment sale and transfer during the year (2004: Nil).

6. SEGMENT INFORMATION (Continued)

(a) Business segments

The following table presents revenue, loss and asset, liability and expenditure information for the Group's business segments.

	Internet-based and Windows-based applications, web page design and website maintenance		System integration		Information technology consultancy services		Consolidated	
								(Restated)
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Segment revenue:								
Sales to external customers	48	133	452	–	130	–	630	133
Segment results	(1)	(320)	5	–	60	–	64	(320)
Bank interest income							18	5
Other operating income							21	19
Unallocated expenses							(2,742)	(2,637)
Operating loss							(2,639)	(2,933)
Finance costs							(1,912)	(2,360)
Loss before income tax							(4,551)	(5,293)
Income tax expense							–	–
Loss for the year							(4,551)	(5,293)
Segment assets	37	118	198	–	12	–	247	118
Unallocated assets	–	–	–	–	–	–	2,019	915
Total assets							2,266	1,033
Segment liabilities	239	234	17	–	12	–	268	234
Unallocated liabilities	–	–	–	–	–	–	21,131	15,401
Total liabilities							21,399	15,635
Other segment information:								
Depreciation	78	76	3	–	2	–	83	76
Capital expenditure	22	23	2	–	1	–	25	23

6. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The following table presents revenue and certain assets and expenditure information for the Group's geographical segments.

	Hong Kong		Mainland China		Consolidated	
	2005	2004	2005	2004	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:						
Sales to external customers	630	133	–	–	630	133
Other segment information:						
Segment assets	2,266	1,026	–	7	2,266	1,033
Capital expenditure	25	23	–	–	25	23

7. REVENUE

	2005	2004
	HK$'000	HK$'000
Information technology, consultancy fees	130	–
System integration income	452	–
Internet-based and Windows-based applications, web page design and website maintenance	48	133
	630	133

8. OTHER OPERATING INCOME

	2005 HK$'000	2004 HK$'000
Bank interest income	18	5
Sundry income	21	19
	39	24

9. FINANCE COSTS

	2005 HK$'000	(Restated) 2004 HK$'000
Interest charges on:		
Loans from a shareholder wholly repayable within five years	245	–
Convertible bonds	1,667	2,360
	1,912	2,360

10. LOSS BEFORE INCOME TAX

	2005 HK$'000	2004 HK$'000
Loss before income tax is arrived at after charging:		
Cost of services provided *	566	324
Auditors' remuneration	182	181
Staff costs (excluding directors' emoluments) (note 14)	1,083	910
Minimum lease payments paid under operating leases in respect of:		
– Land and buildings	217	177
– Computer server	24	40
Depreciation	83	76

* Cost of services provided included HK$113,000 (2004: HK$234,000) relating to staff costs which are also included in the respective total amount disclosed above.

11. INCOME TAX EXPENSE

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2004: Nil).

During the year, provision for the profits tax of subsidiaries operating outside Hong Kong has not been provided as the subsidiaries did not generate any assessable profits in the respective jurisdictions during the year. (2004: Nil).

Reconciliation between tax expense and accounting loss at applicable tax rates is as follows:

	2005 HK$'000	(Restated) 2004 HK$'000
Loss before income tax	**(4,551)**	(5,293)
Tax at the statutory rate of 17.5% in Hong Kong (2004: 17.5%)	**(796)**	(926)
Effect of different tax rate of the other jurisdictions	**(22)**	(22)
Tax effect of non-deductible expenses	**504**	610
Tax effect of non-taxable revenue	**(3)**	–
Tax effect of temporary differences not recognised	**3**	–
Tax effect of tax losses not recognised	**314**	338
Income tax expense	**–**	–

As at 31 December 2005, the Group has unutilised tax loss of HK$136,791 (2004: HK$142,644) arising from a subsidiary operating outside Hong Kong which is available for setting off against future taxable profit of that subsidiary for 5 years and tax losses of HK$49,393,073 (2004: HK$47,858,850) arising from certain subsidiaries operating in Hong Kong which can be carried forward indefinitely. Deferred tax asset has not been recognised in respect of the tax losses that have been arisen in subsidiaries that have been loss-making for some time.

As at 31 December 2005, no deferred tax liability has been provided as the Group and the Company did not have any significant temporary differences which give rise to a deferred tax liability (2004: Nil).

12. LOSS FOR THE YEAR

Of the loss for the year of HK$4,551,000 (2004: HK$5,293,000 (Restated)), a loss of HK$4,274,000 (2004: HK$5,290,000 (Restated)) has been dealt with in the financial statements of the Company.

13. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to equity holders of the Company of HK$4,526,000 (2004: HK$5,293,000 (Restated)) and on the weighted average number of 75,372,000 (2004: 75,372,000) ordinary shares of the Company in issue during the year, as adjusted to reflect the Share Consolidation during the year (as further detailed in note 26).

Diluted loss per share for the years ended 31 December 2005 and 2004 have not been disclosed as the share options and convertible bonds outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

14. EMPLOYEE BENEFIT EXPENSE (EXCLUDING DIRECTORS' EMOLUMENTS)

	2005 HK$'000	2004 HK$'000
Wages and salaries	1,050	859
Pension costs – defined contribution plans	33	51
	1,083	910

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENT

(a) Directors' emoluments

The emoluments paid or payable to the directors were as follows:

	Fees	**Salaries and allowances**	**Contributions to pension scheme**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2005				
Executive directors				
Choi Koon Ming	–	–	–	–
Ng Kam Yiu	–	–	–	–
Chow Yeung Tuen, Richard	–	–	–	–
Luan Shusheng (Note 1)	–	–	–	–
Non-executive director				
Ha Kee Choy, Eugene	–	–	–	–
Independent non-executive directors				
Ho Suk Yin, *JP* (Note 2)	–	–	–	–
Cho Po Hong, Jimmy (Note 3)	–	–	–	–
Chik Sun Cheung (Note 3)	–	–	–	–
Wu Tak Lung (Note 4)	5	–	–	5
King Phillip (Note 4)	5	–	–	5
	10	–	–	10

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENT (Continued)

(a) Directors' emoluments (Continued)

	Fees	Salaries and allowances	Contributions to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2004				
Executive directors				
Choi Koon Ming	–	–	–	–
Ng Kam Yiu	–	–	–	–
Chow Yeung Tuen, Richard	–	–	–	–
Luan Shusheng	–	–	–	–
Leung Wai Sze (Note 5)	–	325	8	333
Hui Ching Shan (Note 6)	–	210	10	220
Chau Chi Man (Note 6)	–	–	–	–
Non-executive director				
Ha Kee Choy, Eugene	–	–	–	–
Independent non-executive directors				
Ho Suk Yin, *JP*	–	–	–	–
Cho Po Hong, Jimmy	–	–	–	–
Chik Sun Cheung	–	–	–	–
Chan Yan Tin, Andrew (Note 7)	–	–	–	–
	–	535	18	553

Notes:

1. Retired on 27 June 2005.
2. Resigned on 1 March 2006.
3. Resigned on 30 September 2005.
4. Appointed on 1 October 2005.
5. Resigned on 1 September 2004.
6. Resigned on 21 October 2004.
7. Resigned on 1 November 2004.

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENT (Continued)

(a) Directors' emoluments (Continued)

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2004: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included none (2004: two) of the directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the five (2004: the remaining three) highest paid individuals during the year are as follows:

	2005 HK$'000	2004 HK$'000
Basic salaries, allowances and other benefits in kind	826	437
Contributions to pension scheme	25	27
	851	464

The emoluments fell within the following band:

	Number of individuals	
	2005	2004
Emolument band		
HK$nil – HK$1,000,000	5	3

During the year, no emoluments were paid by the Group to the five highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office (2004: Nil).

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Furniture, fixtures and fittings HK$000	**Computer and office equipment** HK$000	**Total** HK$000
At 1 January 2004			
Cost	423	2,113	2,536
Accumulated depreciation	(273)	(2,092)	(2,365)
Net book amount	150	21	171
Year ended 31 December 2004			
Opening net book amount	150	21	171
Additions	6	17	23
Depreciation	(66)	(10)	(76)
Closing net book amount	90	28	118
At 31 December 2004			
Cost	429	2,130	2,559
Accumulated depreciation	(339)	(2,102)	(2,441)
Net book amount	90	28	118
Year ended 31 December 2005			
Opening net book amount	90	28	118
Additions	17	8	25
Depreciation	(69)	(14)	(83)
Closing net book amount	**38**	**22**	**60**
At 31 December 2005			
Cost	446	2,138	2,584
Accumulated depreciation	(408)	(2,116)	(2,524)
Net book amount	**38**	**22**	**60**

17. INVESTMENTS IN SUBSIDIARIES/DUE TO A SUBSIDIARY

Company

	2005 HK$'000	2004 HK$'000
Unlisted shares, at cost	–	–
Due to a subsidiary (included under current liabilities)	(3)	(3)

The balance due to the subsidiary is unsecured, interest-free and repayable on demand.

Particulars of the subsidiaries at 31 December 2005 are as follows:

Name of subsidiary	Place of incorporation/ registration/ operations and kind of legal entity	Particulars of issued and fully paid share capital/ registered capital	Percentage of issued capital held by the Company Directly	Percentage of issued capital held by the Company Indirectly	Principal activities
E-silkroad.net Corporation	British Virgin Islands, limited liability company	1 ordinary share of US$1 each	100%	–	Investment holding
E-silkroad.net Online Exhibition Limited	Hong Kong, limited liability company	10,000 ordinary shares of HK$1 each	–	100%	Development of e-commerce business, provision of web page design and website maintenance services
E-silkroad.net Online Commerce Limited	Hong Kong, limited liability company	10,000 ordinary shares of HK$1 each	–	100%	Dormant

17. INVESTMENTS IN SUBSIDIARIES/DUE TO A SUBSIDIARY (Continued)

Particulars of the subsidiaries at 31 December 2005 are as follows: (Continued)

Name of subsidiary	Place of incorporation/ registration/ operations and kind of legal entity	Particulars of issued and fully paid share capital/ registered capital	Percentage of issued capital held by the Company		Principal activities
			Directly	Indirectly	
Business Essence Technology Limited	British Virgin Islands, limited liability company	1 ordinary share of US$1 each	–	100%	Investment holding
E-silkroad.net Resources Limited	British Virgin Islands, limited liability company	1 ordinary share of US$1 each	–	100%	Dormant
中山市光彩未來軟件有限公司 (“**Zhongshan GF**”)	The People's Republic of China (“**PRC**”)*	HK$8,000,000	–	95%	Provision of web page design services, application development and technical support services
Leland Solutions Limited#	Hong Kong, limited liability company	50,000 ordinary shares of HK$1 each	–	51%	Provision of web page design, website maintenance, system integration and information technology consultancy services

* Zhongshan GF is registered as a contractual joint venture under the PRC law.

Leland Solutions Limited was incorporated on 23 August 2005.

18. TRADE RECEIVABLES

Group

	2005 HK$'000	2004 HK$'000
Trade receivables	590	403
Less: allowance for impairment of receivables	(403)	(403)
Trade receivables – net	187	–

The Group allows a credit period from 30 days to 90 days to its trade customers. The following is an aged analysis of net trade receivables at the balance sheet date:

	2005 HK$'000	2004 HK$'000
0 – 30 days	32	–
31 – 60 days	–	–
61 – 90 days	155	–
	187	–

19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

Group

	2005 HK$'000	2004 HK$'000
Cash at banks and in hand	601	325
Short-term bank deposits	1,253	568
	1,854	893

19. CASH AND CASH EQUIVALENTS (Continued)

Company

	2005 HK$'000	2004 HK$'000
Cash at banks and in hand	8	20
Short-term bank deposits	1,253	568
	1,261	588

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term bank deposits are made for varying periods of between one day and three months depending on the immediate cash requirement of the Group, and earn interest at the respective short-term time deposit rates. The carrying amounts of the cash and cash equivalents approximate their fair values.

Included in cash at banks and in hand of the Group is HK$13,000 (2004: HK$7,000) of bank balances denominated in Renminbi ("**RMB**") placed with banks in Mainland China. RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

20. TRADE PAYABLES

Group

	2005 HK$'000	2004 HK$'000
Trade payables	30	–

20. TRADE PAYABLES (Continued)

The following is an aged analysis of trade payables at the balance sheet date:

	2005 HK$'000	2004 HK$'000
0 – 30 days	–	–
31 – 60 days	17	–
61 – 90 days	13	–
	30	–

21. OTHER LOAN

The balance in 2004 was unsecured, interest-free and was repaid during the year.

22. UNSECURED AND INTEREST-FREE ADVANCES

Pursuant to a deed of confirmation signed between the Company and Sun Wah dated 8 September 2003, the Company is not obliged to pay any of the accrued interest (the "**Interest**") for the convertible bonds of HK$7 million issued on 28 March 2002 (as further detailed in note 24), due on or before the interest due dates (i.e. 28 September 2003, 28 March 2004, 28 September 2004 and 28 March 2005), if the Directors have issued a written certificate to Sun Wah on the respective due dates certifying the Company is unable to pay the amount of the Interest. The entire sum of the Interest falling due is then treated as unsecured and interest-free advances (the "**Advances**") made by Sun Wah to the Company. Sun Wah does not have any right to demand for repayment of the Advances and the entire sum of the Advances will only be repaid by the Company to Sun Wah at the initiative of the Company but no later than 28 March 2005.

Prior to the due date on 28 September 2003, 28 March 2004 and 28 September 2004, the Directors issued written certificates to Sun Wah certifying that the Company was unable to repay the accrued interest of HK$282,000, HK$279,000 and HK$282,000 due on 28 September 2003, 28 March 2004 and 28 September 2004, respectively. Accordingly, the Advances were treated as current liabilities in the prior year.

On 28 March 2005, the Company elected to satisfy the redemption request made by Sun Wah to redeem the whole convertible bonds together with accrued interests. As a result, the Advances of HK$843,000 were settled by the Company on 28 March 2005 (as further detailed in note 24).

23. LOANS FROM A SHAREHOLDER

Pursuant to a loan agreement signed between the Company and Sun Wah dated 24 March 2005, the Company obtained a short-term loan of HK$9 million (the "**First Shareholder's Loan**") from Sun Wah which was mainly used to redeem the convertible bonds with nominal value of HK$7 million issued by the Company to Sun Wah on 28 March 2002 upon maturity on 28 March 2005 (as detailed in note 24). The First Shareholder's Loan was unsecured, interest bearing at 3% per annum and repayable on 27 September 2005.

In accordance with another loan agreement signed between the Company and Sun Wah dated 18 October 2005, the Company obtained a short-term loan of HK$12 million (the "**Second Shareholder's Loan**") from Sun Wah which was mainly used to settle the principal and accrued interest of the First Shareholder's Loan of HK$9,156,082. The remaining balance of the fund of HK$2,843,198 was retained as working capital of the Company. The Second Shareholder's Loan is unsecured, interest bearing at 4% per annum and repayable on 24 April 2006. On 29 November 2005, the Company made partial repayment of HK$600,000 to Sun Wah and accordingly, the outstanding principal of the Second Shareholder's Loan was reduced to HK$11.4 million and the balance at amortised cost using the effective interest method was HK$11.5 million as at 31 December 2005.

Pursuant to a loan agreement signed between a subsidiary of the Company and Sun Wah dated 24 November 2005, a short-term loan of HK$600,000 was advanced from Sun Wah which is unsecured, interest bearing at 4% per annum and repayable on 28 May 2006. The balance of this loan stated at amortised cost using the effective interest method was HK$602,000 as at 31 December 2005.

24. CONVERTIBLE BONDS

Pursuant to a subscription agreement dated 15 February 2002, the Company issued convertible bonds at a nominal value of HK$7 million to Sun Wah on 28 March 2002. The convertible bonds were unsecured, interest bearing at 8% per annum and the interest was repayable half yearly in arrears. Under the terms of the convertible bonds, the Company may redeem the whole or part of the convertible bonds at any time before the maturity date on 28 March 2005, subject to the right of Sun Wah to convert the convertible bonds that the Company is exercising its redemption right into the Company's ordinary shares of the then par value of HK$0.05 each, subject to adjustment. Furthermore, Sun Wah has the right to redeem the whole or part of the convertible bonds in cash or convert the whole or part of the convertible bonds into the Company's ordinary shares of the then par value of HK$0.05 each, subject to adjustment, at any time before the maturity date on 28 March 2005. Under such circumstances, the Company may, instead of redeeming the convertible bonds, elect to satisfy the redemption by the issue of ordinary shares of the Company.

24. CONVERTIBLE BONDS (Continued)

On 28 March 2005, the Company elected to satisfy the redemption request made by Sun Wah to redeem the whole convertible bonds (including the accrued interest due on 28 March 2005 of HK$280,000 and those under the unsecured and interest-free advances of HK$843,000 (as further detailed in note 22)) of HK$8,123,000.

On 27 October 2003, the Company issued another convertible bonds at a nominal value of HK$9 million to Sun Wah. The convertible bonds were unsecured, interest bearing at 3% per annum and the interest was repayable half yearly in arrears. Under the terms of the convertible bonds, the Company shall have the right at any time before the maturity date on 27 October 2006, to redeem or purchase the whole or part of the convertible bonds from Sun Wah. Furthermore, Sun Wah has the right to convert the whole or part of the convertible bonds into the Company's ordinary shares at a conversion price of HK$0.50 per each conversion Share (as adjusted by the Share Consolidation), subject to adjustment, at any time before the maturity date on 27 October 2006. However, Sun Wah does not have any rights to request for redemption of the whole or part of the convertible bonds before the maturity date on 27 October 2006. Moreover, no assignment or transfer of the convertible bonds may be made without the prior consent of the Company.

The Company shall only redeem the whole or part of the convertible bonds, in cash, if the adequacy of working capital and liquidity of the Group are not impaired by such redemption.

The convertible bonds contain two components, liability and equity elements. Upon the adoption of HKAS 32 Financial Instruments: Disclosure and Presentation (note 3.2), the convertible bonds were split between the liability and equity elements, on a retrospective basis.

The fair values of the liability components of the Company's convertible bonds were estimated at the issuance dates using equivalent market interest rates for similar bonds without a conversion option. The residual amounts, after deducting the fair values of the liability components from the fair value of the convertible bonds as a whole, representing the values of the equity components, are included in equity as convertible bond equity reserve.

24. CONVERTIBLE BONDS (Continued)

The convertible bonds recognised in the balance sheet are calculated as follows:

	Liability component HK$'000	**Equity component** HK$'000	**Total** HK$'000
Fair value of convertible bonds at 1 January 2004, as restated	12,335	4,875	17,210
Interest expense	2,360	–	2,360
Interest paid	(832)	–	(832)
Fair value of convertible bonds at 31 December 2004 and 1 January 2005, as restated	13,863	4,875	18,738
Interest expense	1,667	–	1,667
Interest paid	(550)	–	(550)
Redemption on maturity	(7,000)	(1,656)	(8,656)
Fair value of convertible bonds at 31 December 2005	**7,980**	**3,219**	**11,199**

The carrying amount of the liability component is analysed as follows:

	2005 HK$'000	2004 HK$'000
Current liability	**7,980**	6,969
Non-current liability	**–**	6,894
	7,980	13,863

25. DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

Pursuant to a shareholder agreement signed between the Group and Sun Rise Int'l Trading Limited ("**Sun Rise**") dated 1 August 2005, both parties agreed and jointly established a new company, Leland Solutions Limited ("**Leland**") which was incorporated on 23 August 2005. The total issued and fully paid capital of Leland is HK$50,000. The Group and Sun Rise have 51% and 49% shareholding in Leland respectively as at 31 December 2005. The Group and Sun Rise have mutually agreed to make a total investment commitment in Leland of not more than HK$250,000 (including the initial capital contribution). After the initial capital contribution of HK$50,000, the remaining investment commitment of HK$200,000 was contributed by the Group of HK$102,000 and Sun Rise of HK$98,000 by way of a long-term loan to Leland during the year. The balance due to Sun Rise of HK$98,000 is unsecured, interest-free and not repayable within the next twelve months after the balance sheet date.

The remaining amount of HK$401,000 is due to a minority shareholder of Zhongshan GF which is unsecured and interest-free. The minority shareholder has undertaken not to demand repayment within a period of twelve months from the balance sheet date.

The carrying amounts of the balances due to minority shareholders approximate their fair values.

26. SHARE CAPITAL

	Number of shares	HK$'000
Authorised:		
At 31 December 2004, ordinary shares of HK$0.05 each	2,000,000,000	100,000
Share Consolidation (Note)	(1,800,000,000)	–
At 31 December 2005, ordinary shares of HK$0.50 each	**200,000,000**	**100,000**
Issued and fully paid:		
At 31 December 2004, ordinary shares of HK$0.05 each	753,720,000	37,686
Share Consolidation (Note)	(678,348,000)	–
At 31 December 2005, ordinary shares of HK$0.50 each	**75,372,000**	**37,686**

Note: Pursuant to an ordinary resolution passed at an extraordinary general meeting held on 16 November 2005, the Company consolidated every ten authorised and issued shares of HK$0.05 each in the capital of the Company into one ordinary share of HK$0.50 each.

27. SHARE-BASED EMPLOYEE COMPENSATION

Share Option Scheme

The Company's pre-Initial Public Offering ("**IPO**") and post-IPO share options are disclosed as follows:

(a) Pre-IPO share options

The pre-IPO share options were granted to certain Directors and former Directors to recognise their significant contributions to the growth of the Group prior to the listing of the shares of the Company on the GEM.

All of the pre-IPO share options granted to a Director and a former Director lapsed upon expiration of the exercisable period and resignation as a director of the Group respectively during 2004.

(b) Post-IPO share options

The principal purpose of the share option scheme is to recognise the significant contributions of the directors and employees of the Group to the growth of the Group, by rewarding them with opportunities to obtain an ownership interest in the Company and to further motivate them and give incentives to these persons to continue to contribute to the Group's long term success and prosperity.

27. SHARE-BASED EMPLOYEE COMPENSATION (Continued)

(b) Post-IPO share options (Continued)

The eligible participants of the share option scheme are the directors and full time employees of the Company and its subsidiaries. The share option scheme became effective on 2 March 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from its date of adoption on 19 February 2001.

Under the share option scheme, the maximum number of unexercised share options permitted to be granted is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the share option scheme in aggregate cannot exceed 25% of the total number of shares of the Company in issue at any time for which share options may be granted under the share option scheme. However, following the introduction of the revised Chapter 23 of the GEM Listing Rules, the initial total number of shares which may be issued upon exercise of an option to be granted under the share option scheme and any other schemes must not in aggregate exceed 10% of the shares of the Company immediately following the listing of the shares of the Company on the GEM. Subject to the approval of the Company's shareholders, the aggregate number of the Company's shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the share option scheme and any other share option schemes of the Company shall not exceed 30% of the Company's shares in issue from time to time.

The maximum number of shares issued and to be issued upon exercise of the options granted under the share option scheme and any other share option schemes of the Company to each of any eligible persons (including those cancelled, exercised and outstanding options), in any twelve months period up to the date of the latest grant shall not exceed 1% of the Company's shares in issue provided that the number of shares issued and to be issued upon exercise of all options granted and to be granted to each of the independent non-executive directors or substantial shareholders of the Company or any of their respective associates in the twelve months period up to the date of such grant in excess of 0.1% of the Company's shares in issue and with a value in excess of HK$5 million must be approved in advance by the Company's independent shareholders. Any further grant of options in excess of such limit must be separately approved by shareholders in general meeting in accordance with the requirements of the GEM Listing Rules.

The offer of a grant of share options may be accepted in writing within 21 days from the date of the offer. The exercise period of the share options granted is determinable by the directors, and shall not be less than three years and not be later than ten years from the date of the offer of the share options or the expiry date of the share option scheme, if earlier.

27. SHARE-BASED EMPLOYEE COMPENSATION (Continued)

(b) Post-IPO share options (Continued)

The subscription price is equal to the higher of (i) the nominal value of the shares of the Company; (ii) the closing price per share of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant; and (iii) the average closing price per share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant.

Detailed movements in the scheme for the year ended 31 December 2004:

	Number of share options							
Directors	**At 1 January 2004**	**Granted during the year**	**Lapsed during the year**	**At 31 December 2004**	**Date of grant of share options**	**Exercise period of share options***	**Exercise price of share options**** HK$	**Closing price of shares immediately before the date of grant of options** HK$
Mr. Choi Koon Ming	7,500,000	–	–	7,500,000	21 January 2003	21 January 2003 to 20 January 2008	0.115	0.114
Mr. Hui Ching Shan	6,000,000	–	(6,000,000)[#]	–	21 January 2003	21 January 2003 to 20 January 2008	0.115	0.114
Mr. Ng Kam Yiu	3,000,000	–	–	3,000,000	21 January 2003	8 January 2004 to 7 January 2009	0.115	0.114
Mr Chow Yeung Tuen, Richard	3,000,000	–	–	3,000,000	21 January 2003	21 January 2003 to 20 January 2008	0.115	0.114
Ms. Leung Wai Sze	4,000,000	–	(4,000,000)[#]	–	21 January 2003	21 January 2003 to 20 January 2008	0.115	0.114
Mr. Luan Shusheng	6,000,000	–	–	6,000,000	30 April 2003	12 February 2004 to 11 February 2009	0.108	0.108
Mr. Chau Chi Man	3,000,000	–	(3,000,000)[#]	–	30 April 2003	8 April 2004 to 7 April 2009	0.108	0.108
Sub-total	32,500,000	–	(13,000,000)	19,500,000				
Other employees								
	500,000	–	(500,000)[##]	–	21 January 2003	29 April 2003 to 28 April 2008	0.115	0.114
	500,000	–	(500,000)[##]	–	21 January 2003	14 May 2003 to 13 May 2008	0.115	0.114
Sub-total	1,000,000	–	(1,000,000)	–				
Total	33,500,000	–	(14,000,000)	19,500,000				

27. SHARE-BASED EMPLOYEE COMPENSATION (Continued)

(b) Post-IPO share options (Continued)

* The vesting period of the share options is from the date of the grant until the commencement of the exercised period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

\# The 13,000,000 post-IPO share options lapsed upon the resignation of the directors of the Company.

\#\# The 1,000,000 post-IPO share options lapsed upon the resignation of employees of the Group.

Detailed movements in the scheme for the year ended 31 December 2005:

	Number of share options							
Directors	At 1 January 2005	Lapsed during the year	Adjusted on 17 November 2005**	At 31 December 2005	Date of grant of share options	Exercise period of share options*	Exercise price of share options** HK$	Closing price of shares immediately before the date of grant of options** HK$
Mr. Choi Koon Ming	7,500,000	–	(6,750,000)	750,000	21 January 2003	21 January 2003 to 20 January 2008	1.15	1.14
Mr. Ng Kam Yiu	3,000,000	–	(2,700,000)	300,000	21 January 2003	8 January 2004 to 7 January 2009	1.15	1.14
Mr Chow Yeung Tuen, Richard	3,000,000	–	(2,700,000)	300,000	21 January 2003	21 January 2003 to 20 January 2008	1.15	1.14
Mr. Luan Shusheng	6,000,000	(6,000,000)#	–	–	30 April 2003	12 February 2004 to 11 February 2009	0.108#	0.108#
	19,500,000	(6,000,000)	(12,150,000)	1,350,000				

* The vesting period of the share options is from the date of the grant until the commencement of the exercised period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital. Following the Share Consolidation with effect from 17 November 2005, the total number of share options outstanding was reduced by 12,150,000 and the exercise price of the share options outstanding and the closing price of shares immediately before the date of grant of options had been adjusted from HK$0.115 to HK$1.15 and from HK$0.14 to HK$1.14 accordingly.

\# The 6,000,000 share options lapsed upon the retirement of the executive director of the Company before the Share Consolidation.

27. SHARE-BASED EMPLOYEE COMPENSATION (Continued)

(b) Post-IPO share options (Continued)

As at the balance sheet date, the Company had 1,350,000 post-IPO share options outstanding which represented approximately 1.8% of the Company's shares in issue as at 31 December 2005. The exercise in full of all the remaining share options would, under the present capital structure of the Company as at the balance sheet date, result in the issue of 1,350,000 additional shares with exercise price of HK$1.15 (as adjusted for the Share Consolidation) with gross proceeds of approximately HK$1,552,500. Up to the date of these financial statements, none of the share options has been exercised.

No share options were granted during the year and therefore no consideration in respect of the share options was received.

28. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 38 of the financial statements.

Company

	Share premium account HK$'000	Convertible bond equity reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2004, as previously reported	15,796	–	(66,179)	(50,383)
Effect of initial adoption of HKAS 32	–	4,875	(1,014)	3,861
At 1 January 2004, as restated	15,796	4,875	(67,193)	(46,522)
Loss for the year	–	–	(5,290)	(5,290)
At 31 December 2004	15,796	4,875	(72,483)	(51,812)
At 1 January 2005, as previously reported	15,796	–	(69,941)	(54,145)
Effect of initial adoption of HKAS 32	–	4,875	(2,542)	2,333
At 1 January 2005, as restated	15,796	4,875	(72,483)	(51,812)
Loss for the year	–	–	(4,274)	(4,274)
Share premium cancellation (note)	(15,796)	–	15,796	–
Redemption of convertible bonds	–	(1,656)	1,656	–
At 31 December 2005	–	3,219	(59,305)	(56,086)

Note:

The share premium account of the Group and Company arises on shares issued at a premium.

28. RESERVES (Continued)

Company (Continued)

In accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

Pursuant to a special resolution passed at an extraordinary general meeting held on 16 November 2005, the share premium account of an amount of HK$15,795,816 was applied towards the reduction of the accumulated losses in the reserves.

29. OPERATING LEASE COMMITMENTS

Group

At 31 December 2005, the total future minimum lease payments under non-cancellable operating leases are payable by the Group as follows:

	2005	2004
	HK$'000	HK$'000
Within one year	**10**	–

The Group leases a rented premise under an operating lease. The lease runs for an initial period of one year, with an option to renew the lease terms at the expiry date or at dates mutually agreed between the Group and the landlord. The lease does not include contingent rental.

Company

The Company had no significant operating lease commitments as at 31 December 2005 and 2004.

30. CAPITAL COMMITMENTS

The Group and the Company had no significant capital commitments as at 31 December 2005 and 2004.

31. CONTINGENT LIABILITIES

The Group and the Company had no significant contingent liabilities as at 31 December 2005 and 2004.

32. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Note	2005 HK$000	2004 HK$'000
Rental expenses paid to:			
Wellman Investment Limited ("**Wellman**")	(i)	57	120
Building management fee paid to:			
SK property Management Limited ("**SK Property**")	(i)	22	47
Service fee income for Internet-based application and web page design services received from:			
Sun Wah Media Holdings Limited ("**Sun Wah Media**")	(ii)	–	(23)
SW Rogers Media Limited ("**SW RML**")	(ii)	–	(16)
SW Mandarin.net Holdings Limited ("**SW MHL**")	(ii)	–	(40)
Sun Wah Hi-Tech (H.K.) Limited ("**Sun Wah Hi-Tech**")	(ii)	–	(48)
Interest expense paid to Sun Wah:	(iii)		
– Shareholder's loans		245	–
– Convertible bonds		1,667	2,360

32. RELATED PARTY TRANSACTIONS (Continued)

Notes:

(i) Wellman and SK Property are companies controlled by a substantial shareholder. The Group leased office premises from Wellman starting from 1 April 2003 at a monthly rental charge of HK$10,000. No lease agreement in respect of the lease of the office properties has been entered into between the two parties. In addition, a monthly management fee of HK$3,912 in respect of the office premises leased was charged by SK Property. However, these transactions are considered to be related party transactions only up to 22 June 2005, as the said premises were sold to an outside third party thereafter.

(ii) Sun Wah Media and Sun Wah Hi-Tech are fellow subsidiaries of Sun Wah. SW RML and SW MHL are companies subject to significant influence from Sun Wah. The service fees income received were mutually negotiated between the Group and the respective parties based on the specifications as required by these related parties.

(iii) Sun Wah is one of the substantial shareholders of the Company. Details of the loans advanced by Sun Wah and convertible bonds issued to Sun Wah are set out in notes 23 and 24.

(b) Compensation of key management personnel

Group

	2005	2004
	HK$'000	HK$'000
Total remuneration of directors and other members of key management during the year	**470**	1,147

33. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

During the year, pursuant to a shareholder agreement signed between the Group and Sun Rise dated 1 August 2005, both parties agreed to jointly establish a new company, Leland, which was incorporated on 23 August 2005. The Group contributed 51% of the issued capital of Leland by way of cash and Sun Rise contributed the remaining 49% of the issued capital of Leland by way of the transfer and assignment of certain property, plant and equipment at net book value of approximately HK$25,000.

34. POST BALANCE SHEET EVENT

On 15 February 2006, the Company reduced the nominal value of each share from HK$0.5 each to HK$0.01 each ("**Par Value Reduction**") by cancellation of HK$0.49 paid up capital on each share. Accordingly, the number of authorised shares increased from 200,000,000 to 10,000,000,000. As a result of the Par Value Reduction, on the basis of 75,372,000 issued shares, an amount of HK$36,932,280 from the share capital account was applied towards the elimination of part of the accumulated losses of the reserves.

35. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group does not have written risk management policies and guidelines. However, the board of directors meet periodically to analyse and formulate strategies to manage the Group's exposure to market risk. The Group's exposure to market risk is kept to a minimum. The Group has not used any derivatives or other instruments for hedging purpose.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below.

35. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

35.1 Foreign currency risk

The Group has no significant foreign currency risk due to limited foreign currency transactions.

35.2 Interest rate risk

The Group has no significant interest rate risk as there are no significant long term external borrowings which bear floating interest rates.

35.3 Credit risk

Credit risk arises from the possibility that the counterparty to a transaction is unwilling or unable to fulfill its obligation with the results that the Group thereby suffers financial loss. The carrying amounts of trade receivables, prepayments, deposits and other receivables included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to financial assets. No other financial assets carry a significant exposure to credit risk. The Group monitors the trade receivables on an ongoing basis and only trades with creditworthy third parties. In addition, all the Group's cash and cash equivalents are deposited with major banks located in Hong Kong and Mainland China. Accordingly, the Group has no significant concentrations of credit risk.

35.4 Fair values

The fair values of cash and cash equivalents, trade receivables, deposits and other receivables, trade payables, other payables and accrued expenses, other loan, unsecured and interest-free advances and loans from a shareholder are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The carrying amounts of the balances due to minority shareholders of subsidiaries approximate their fair values.

Financial Summary

FINANCIAL RESULTS

	Year ended 31 December				
		(Restated)	(Restated)	(Restated)	
	2001	2002	2003	2004	**2005**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Turnover	6,543	785	1,063	133	**630**
Loss before income tax	(27,865)	(11,021)	(6,437)	(5,293)	**(4,551)**
Income tax expense	–	–	–	–	**–**
Loss for the year	(27,865)	(11,021)	(6,437)	(5,293)	**(4,551)**
Minority interests	175	150	–	–	**25**
Loss per share for loss attributable to the equity holders of the Company during the year	(27,690)	(10,871)	(6,437)	(5,293)	**(4,526)**

	As at 31 December				
		(Restated)	(Restated)	(Restated)	
	2001	2002	2003	2004	**2005**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES					
Total assets	8,873	7,619	4,711	1,033	**2,266**
Total liabilities	(11,427)	(13,710)	(14,021)	(15,635)	**(21,399)**
	(2,554)	(6,091)	(9,310)	(14,602)	**(19,133)**

Under HKAS 32, convertible bonds are required to be, at inception, split into separate liability and equity components if the convertible bonds are outstanding at the date of 1 January 2004. The Company had determined the initial carrying amounts of the liability and equity components of the convertible bonds issued on 28 March 2002 and 27 October 2003 which were still outstanding as of 1 January 2004 on the basis of circumstances existing when the convertible bonds were issued. The effect on the adoption of HKAS 32 in relation to the convertible bonds has been incorporated in the above financial summary and comparative amounts for the years ended 2002 to 2004 have been restated.