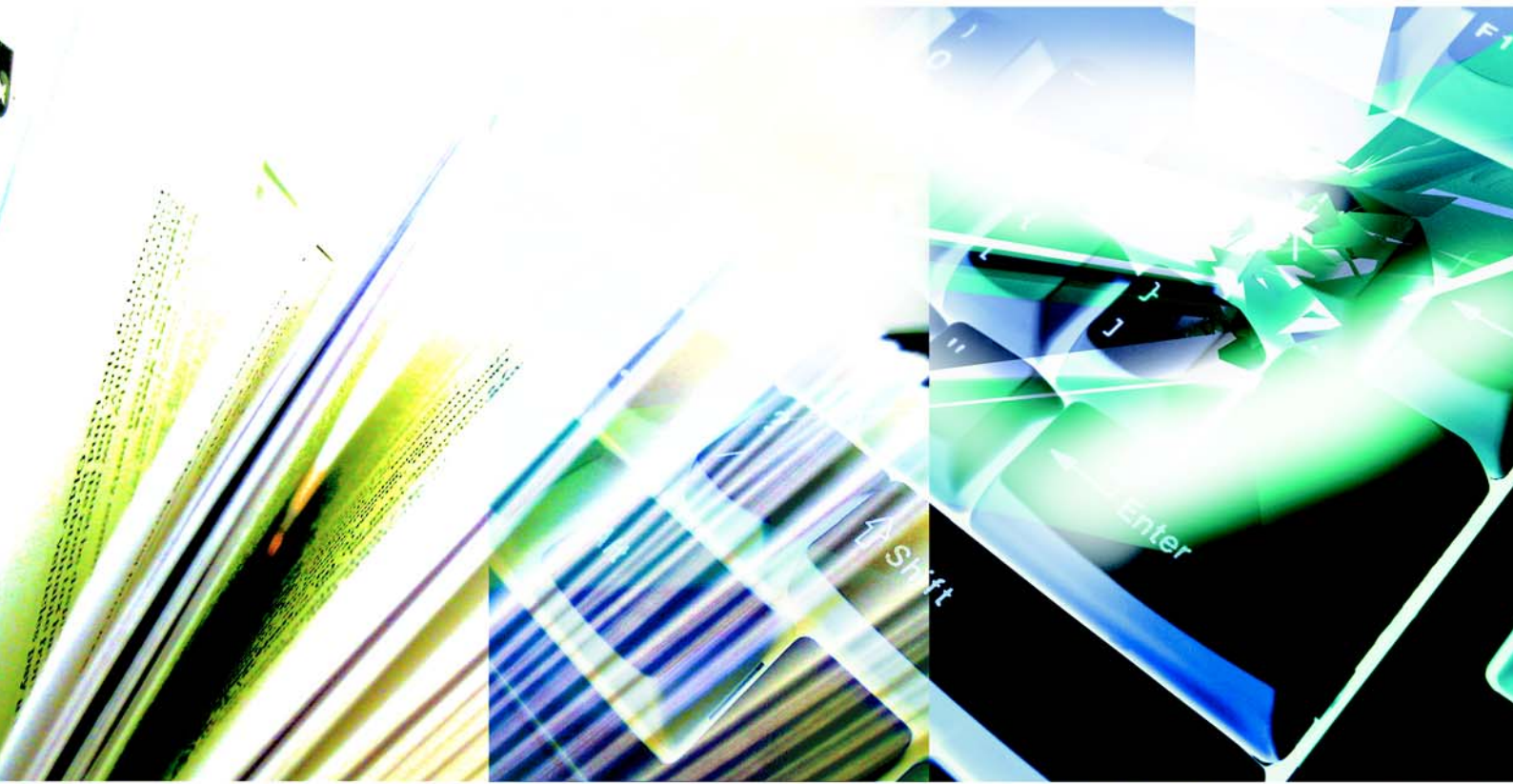




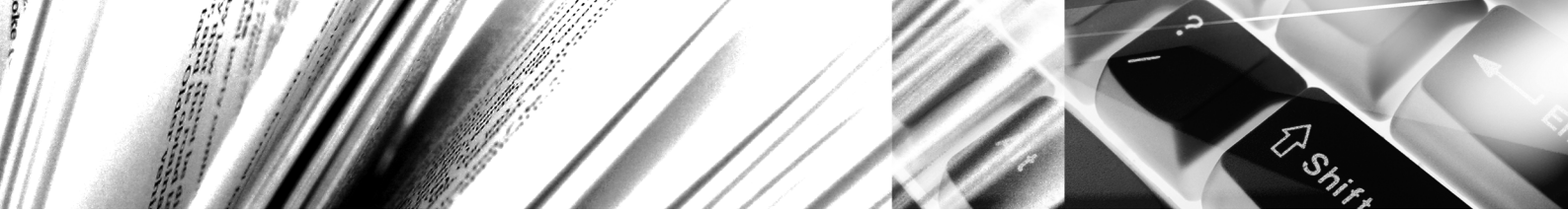
交大銘泰軟件實業有限公司\*  
SJTU SUNWAY SOFTWARE INDUSTRY LIMITED

(incorporated in the Cayman Islands with limited liability)  
Stock Code: 8148



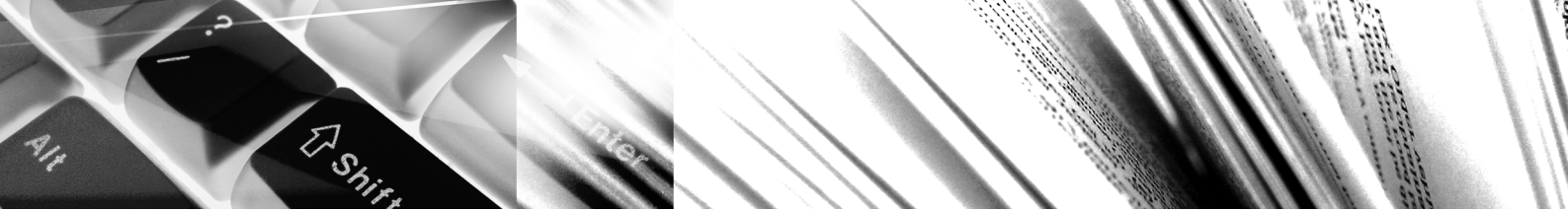
**2005 ANNUAL REPORT**

\* for identification purposes only



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## CORPORATE INFORMATION

### DIRECTORS

#### Executive Directors

Mr. Sze Wai, Marco, *Chairman*  
Mr. He En Pei, *Chief executive officer*  
Mr. Tan Shu Jiang  
Mr. Shang Guan Bu Yan  
Mr. Chen Si Gen

#### Independent Non-executive Directors

Mr. Wang Tian Ye  
Mr. Wang Bin  
Mr. Xu Shi Hong

#### COMPANY SECRETARY

Mr Ho Shu Pui, *CPA*

#### QUALIFIED ACCOUNTANT

Mr. Ho Shu Pui, *CPA*

#### AUDIT COMMITTEE

Mr. Wang Tian Ye  
Mr. Wang Bin  
Mr. Xu Shi Hong

#### AUTHORISED REPRESENTATIVES

Mr. Tan Shu Jiang  
Mr. He En Pei

#### REGISTERED OFFICE

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

#### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 2003 and 2005, 20th Floor  
Great Eagle Centre  
No. 23 Harbour Road  
Wanchai  
Hong Kong

#### PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA

Room 601  
No. 6, Zhong Guan Cun, South Street  
Zhong Dian Information Building  
Hai Dian District  
Beijing 100086  
The People's Republic of China

#### COMPLIANCE OFFICER

Mr. Tan Shu Jiang

#### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited  
3rd Floor, 36C Bermuda House  
P.O. Box 513 G.T.  
Dr. Roy's Drive  
George Town  
Grand Cayman  
British West Indies

#### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited  
26/F Tesbury Centre  
28 Queen's Road East  
Hong Kong

#### COMPLIANCE ADVISER

Core Pacific – Yamaichi Capital Limited

#### AUDITORS

ShineWing (HK) CPA Limited  
Suite 09-18, 20/F  
Shui On Centre, 6-8 Harbour Road  
Wanchai, Hong Kong

#### PRINCIPAL BANKERS

China Construction Bank  
Beijing City Commercial Bank  
Citic Industrial Bank  
Fujian Industrial Bank

#### STOCK CODE

8148



## CHAIRMAN'S STATEMENT

To our Shareholders

On behalf of the Board of Directors (the "Board"), I hereby present the audited results of STJU Sunway Software Industry Limited (the "Company") and its subsidiaries (the "Group") for the financial year ended 31 December 2005.

During the year, the Group focused its resources on the information localization business. Leveraging on the Group's expertise and resources accumulated over the years, the top quality service of "Lingoworld" gained the recognition and support from renowned local and international customers. Nevertheless, due to intense market competition, the translation works handled by the Group decreased significantly and thus directly affect the overall results of the Group for the year.

To seize the opportunities, while actively expanded the information localisation business the Group also expanded to jukebox business during the year in order to enhance the overall economies of the Group. In June, the Group acquired the entire 100% equity interests in New Champion International Ltd, which directly holds 45% of the equity interests in Beijing Advanced Information Storage Technology Co., Ltd., a company incorporated in the People's Republic of China (the "PRC") and is principally engaged in the development and sale of jukebox, a piece of computer hardware which allows storage of and access to a large quantity of discs, especially read-only compact disc (CD-ROM) or other optical media.

In 2006, the Group will enhance the functions of "Lingoworld", widen its renowned customer base and expand its market coverage in the PRC. In addition, one of the most important objectives of the Group in the future is to significantly reduce the operating cost of the Group, and the Group will also closely identify any development projects in the PRC that can generate synergies to its core business.

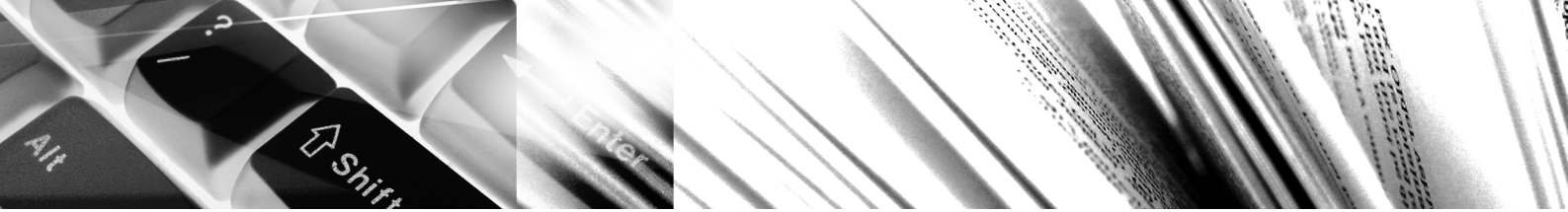
### CONCLUSION

2006 will be a year full of challenges. Through the development of information localisation business and jukebox business, the Group will fully utilise our resources to achieve economies of scale and fully demonstrate our competitiveness in the industry at large. I anticipated the Group's business to grow steadily and bring satisfactory returns to our investors and shareholders.

Last but not least, I would like to take this opportunity to extend my gratitude to our customers, staff members, shareholders and investors for their support in the past year.

**Sze Wai, Marco**  
*Chairman*

Hong Kong, 27 March 2006



# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

Aiming at becoming the prominent information localisation experts in the Greater China region, the Group actively developed its information localisation business during the year under review. With its abundant experience and expertise in software development, the Group has successfully built up a stable customer base covering major commercial and industrial sectors like automobile, information technology, energy, machinery and construction. In view of the significant decrease in translation works handled by the Group compared with the corresponding period last year, the Group has decided to rationalise its business by focusing on providing professional translation services to more established customers. These customers usually place new orders through bidding process with great emphasis on pricing. However, we faced major difficulties in lowering cost prior to the establishment of our comprehensive core-operating platform, which undermined our business performance.

With a view to improve its profitability, the Group has been exploring other business opportunities that can enhance its business portfolio and generate synergies. The Group expanded into the optical disc jukebox business during the year under review. As commercial and personal usage of computers and the internet become increasingly popular in the People's Republic of China (the "PRC"), optical disc jukebox that can be widely used in various sectors requiring large data storage has enormous potential in the PRC market.

During the year under review, the Group has focused on the information localisation business that offers a higher profit margin and greater market potential so as to diversify the Group's business and develop more profitable segments.

## PROSPECTS

After actively exploring and consolidating its position in the information localisation market, the Group is confident about the future of its information localisation business. In 2005, the PRC economy grew at a steady pace, which is evidenced by its gross domestic production of RMB18.2321 trillion in 2005, representing an increase of 9.9% over last year. On the back of the globalisation of various industries, the quicker penetration of multi-national companies into markets around the world and the rapid opening of the PRC market, an enormous translation market with billions of potential revenues is in place. In addition, as more and more large-scale international exhibitions like the Beijing 2008 Olympic Games and Shanghai World Exhibition are coming to the PRC, its translation sector is presented with an unprecedented opportunity. We remain optimistic towards the future of our information localisation business, and will capitalise on our resources and strengthen our competitive edges to prepare ourselves for the future opportunities emerged in the information localisation market.

Looking forward, the Group will focus on exploring the automobile, information technology and financial sectors, which have higher development potential.

With satisfactory progress on all its projects, the management believes that SJTU Sunway will achieve outstanding performance by developing steadily as well as capturing new opportunities.



## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### Overall Review

The Group has downsized its operation in the sales of general software, custom-made solution and licensing that results the turnover drops significantly compared with 2004. At the same time, the operating costs of the Group has increased by 16.3% compared with in 2004. As a result, the Group's loss attributable to equity holders of the parent has increased to approximately HK\$38,372,000 for the year ended 31 December 2005, as compared to loss attributable to shareholders of approximately HK\$25,496,000 for last year.

#### Revenue

For the year ended 31 December 2005, the Group's revenue was approximately HK\$3,764,000 as compared to approximately HK\$13,949,000 for last year. The decrease in revenue was mainly attributable to the Group's business restructuring and the downsizing of business segments in the sales of general software business, licensing fee and custom-made solutions. On the other hand, revenue of the information localisation business, which was the core business during the year, has dropped significantly by 56.6% to approximately HK\$3,759,000 from HK\$8,662,000 which was recorded in 2004.

#### Gross Profit

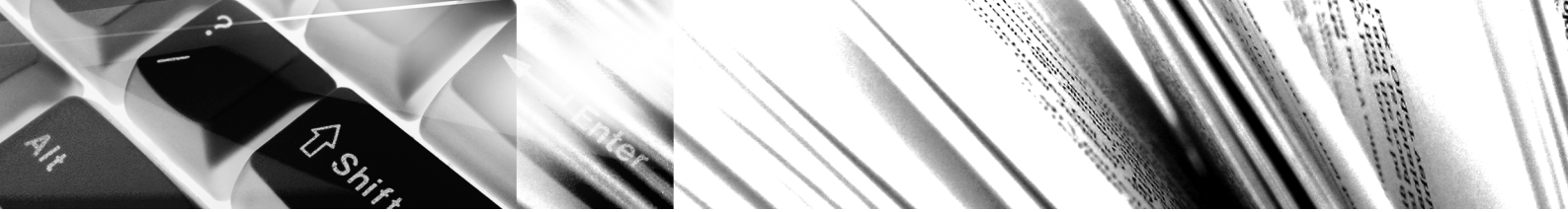
For the year ended 31 December 2005, the Group recorded gross profit of approximately HK\$1,172,000 as compared to approximately HK\$4,376,000 last year. Overall gross profit margin was 31.1% this year as compared with 31.4% last year.

#### Operating costs

For the year ended 31 December 2005, the Group's operating costs, which includes administrative expenses, selling expenses and research and development costs, increased by 16.3% with that for the year 2004. Among which, the administrative expenses has increased by 136.2% whereas selling expenses, research and development costs have decreased by 67.7% and 53.2% respectively. The increase in operating expenses, in particular staff costs, professional fees, rental expenses and the recognition of share-based payments in accordance with the new accounting standards during the year, have imposed great financial burden on the Group. At the same time, the overall business results cannot improve correspondingly, that results in the Group recorded loss attributable to the equity holders of the parent was approximately HK\$38,372,000 as compared with HK\$25,496,000 for the corresponding period in 2004.

#### *Financial Resources and Liquidity*

As at 31 December 2005, the Group had bank balances and cash of approximately HK\$561,000 (2004: approximately HK\$31.1 million). About 98.9% of the total bank balances and cash were denominated in Renminbi ("RMB") with the remainder in Hong Kong dollars.



**FINANCIAL REVIEW** *(Continued)*

**Operating costs** *(Continued)*

*Financial Resources and Liquidity (Continued)*

As at 31 December 2005, the outstanding bank loan and other loan of the Group amounted to approximately HK\$13.6 million (2004: approximately HK\$14.6 million). The bank borrowings, denominated in RMB, are repayable within one year and bearing interest of 6.38% per annum to 9.558% per annum.

*Gearing Ratio*

As at 31 December 2005, the total assets of the Group was approximately HK\$51.6 million (2004: approximately HK\$71.6 million) whereas the total liabilities was approximately HK\$39.3 million (2004: approximately HK\$23.1 million). The gearing ratio of the Group, calculated as total liabilities over total assets, was 76.2% (2004: 32.3%).

*Foreign Exchange Exposure*

Since most of the income and expenses as well as assets and liabilities of the Group are denominated in Renminbi, the Directors consider the Group has no material foreign exchange exposure.

*Acquisition, Disposal and Significant Investment*

On 30 March 2005, the Group entered into an equity transfer agreement with an independent third party pursuant to which the Group agreed to purchase from the independent third party 100% interests in Mighty Wish Services Limited and Shanghai Ruijin Translation Company Limited ("Translation Company"), the Translation Company is principally engaged in the business of information localisation within the PRC.

On 24 June 2005, the group entered into a sale and purchase agreement with an independent third party pursuant to which the Group agreed to purchase from the independent third party 100% interests in New Champion International Limited which owns 45% interests in Beijing Advanced Information Storage Technology Co., Ltd ("Beijing AIS"), Beijing AIS is principally engaged in the development and sales of jukebox and provision of data storage services in the PRC.

Other than disclosed above, for the year ended 31 December 2005, the Group did not have any significant investments.

## **FINANCIAL REVIEW** *(Continued)*

### **Future Significant Investment Plans and Expected Capital Sources**

The details for estimated capital sources of future significant investment plans or expenditure scheme were respectively included in the section headed "Business Objective" of the prospectus of the Company dated 30 December 2003. As at 31 December 2005, an investment funds of approximately HK\$16.4 million was set aside for future investment purpose. Save as disclosed therein, there was no other future significant investment plan as at 31 December 2005.

### **Pledge of Assets and Contingent Liabilities**

As at 31 December 2005, the Group did not have any substantial pledge of assets and material contingent liabilities.

### **DIVIDEND**

The Board does not recommend the payment of a final dividend for the year ended 31 December 2005.

### **EMPLOYEE INFORMATION AND REMUNERATION POLICY**

As at 31 December 2005, the Group employed 52 staff (2004: 202 staff). The staff cost (including directors' remuneration) was approximately HK\$7,546,000 for the year under review (2004: approximately HK\$7,751,000). The Directors received remuneration of approximately HK\$2,721,000 during the year ended 31 December 2005 (2004: approximately HK\$1,952,000). Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employee.

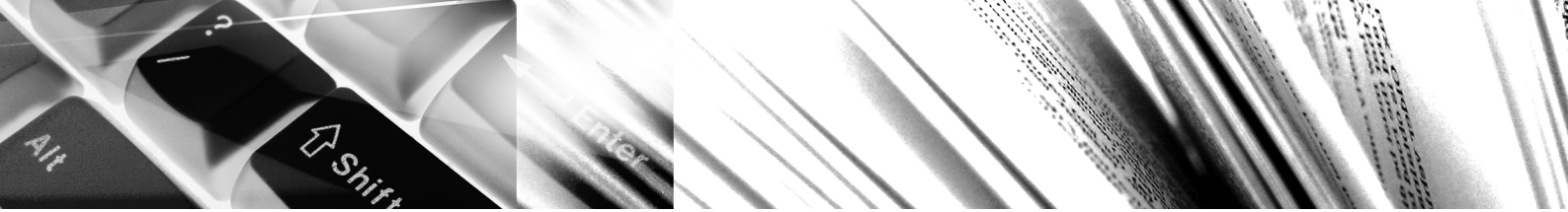
The Group provides benefits in accordance with the relevant rules and regulations in the PRC and Hong Kong including contributions to state-managed retirement benefit scheme in the PRC and the Mandatory Provident Fund Scheme in Hong Kong. The Group also provides training to staff regularly.

### **DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES**

As at 31 December 2005, an investment funds in an aggregate amount of approximately HK\$16.4 million were held in custody by an independent third party not connected with the Directors, the chief executives, management shareholder or substantial shareholders of the Company and its subsidiaries or their respective associates.

The investment funds is unsecured and repayable on demand. The principal amount of the investment funds bears no interest. The balances of the investment funds as at 31 December 2005 represented approximately 31.8% exceeding 8% of the Group's total assets as at 31 December 2005 and represented approximately 52.3%, exceeding 8% of the Company's market capitalisation as at 31 December 2005. This balances give rise to disclosure obligations on the part of the Group pursuant to Rule 17.15 of the GEM Listing Rules.





## CORPORATE GOVERNANCE REPORT

The Company had complied with the code provisions set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 15 of the GEM Listing Rules throughout the year. Below are the major corporate governance practices adopted by the Company with specific reference to the Code.

### DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealing set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the “Required Standard”) as the code of conduct regarding securities transactions by the Directors of the Company and has complied with the Required Standard. A copy of the Required Standard is sent to each Director of the Company upon appointment and a reminder is sent to each Director one month before the date of the board meetings to approve the Company’s quarterly results, interim results and annual results that the Director cannot deal in the shares of the Company until after such results have been published.

### THE BOARD OF DIRECTORS

The Board consists of three Independent Non-executive Directors that is more than one-third of the Board. As at the date of this report, the Board comprises eight Directors, of which five are Executive Directors. Members of the Board met regularly throughout the year to discuss the overall strategy as well as the operation and financial performance of the Group. There are total of 17 board meetings held during the year.

Attendance of individual Directors at Board Meetings held during the year:–

<b>Executive Directors</b>	Attendance	Percentage
Mr. Sze Wai, Marco ( <i>Chairman</i> )	12/17	70%
Mr. He En Pei ( <i>Chief Executive Officer</i> )	17/17	100%
Mr. Shang Guang Bu Yan	5/17	29%
Mr. Chan Si Gen	4/17	23%
Mr. Tan Shu Jiang (appointed on 1 November 2005)	1/1	100%
<b>Independent Non-executive Directors</b>		
Mr. Wang Tian Ye	11/17	65%
Mr. Wang Bin (appointed on 13 June 2005)	5/7	71%
Mr. Xu Shi Hong (appointed on 13 June 2005)	5/7	71%

**THE BOARD OF DIRECTORS** *(Continued)*

The Managing Director of the Company performs the function of chairman and is responsible for leadership and management of the Board, the overall corporate direction, corporate strategy and policy making of the group. The Company's Chief Executive Officer is responsible for overall management, business development, implementation of strategy and policy in achieving the overall commercial objectives. The roles of the Managing Director and the Chief Executive Officer are distinctive. Also, there were no special relationship (including financial, business, family or other material/relevant relationships) among existing members of the Board and in particular, between the Managing Director and the Chief Executive Officer.

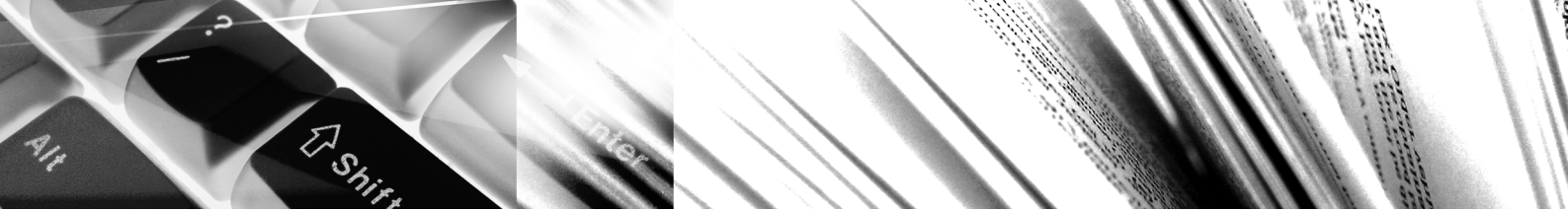
**REMUNERATION COMMITTEE**

The Remuneration Committee comprises four members, a majority of whom are Independent Non-executive Directors, and is chaired by Mr. Xu Shi Hong. The Remuneration Committee is aimed to review and determine the remuneration policy and packages of the executive directors and executives.

The Remuneration Committee is scheduled to meet at least once a year for the determination of the remuneration packages of Directors and executives of the Group. In addition, the Committee also meets as and when required to consider remuneration related matters. One meeting was held during the financial year. The attendance of each member is set out as follows:

Attendance of individual members at Remuneration Committee Meeting held during the year:

	<b>Attendance</b>	<b>Percentage</b>
<b>Independent Non-executive Directors</b>		
Mr. Wang Tian Ye	1/1	100%
Mr. Wang Bin	1/1	100%
Mr. Xu Shi Hong	1/1	100%
<b>Executive Director</b>		
Mr. Sze Wai, Marco	1/1	100%



## **NOMINATION COMMITTEE**

The Nomination Committee comprises four members, a majority of whom are Independent Non-executive Directors, and is chaired by Mr. Wang Bin. The Nomination Committee is responsible for nominating potential candidates for directorship, reviewing the nomination of directors and making recommendations to the Board on such appointments.

The Nomination Committee is scheduled to meet at least once a year for the review of the structure, size and composition of the Board. In addition, the Nomination Committee also meets as and when required to consider nomination related matters. One meeting was held during the financial year. The attendance of each member is set out as follows:

Attendance of individual members at Nomination Committee Meeting held during the year:

	<b>Attendance</b>	<b>Percentage</b>
<b>Independent Non-executive Directors</b>		
Mr. Wang Tian Ye	1/1	100%
Mr. Wang Bin	1/1	100%
Mr. Xu Shi Hong	1/1	100%
<b>Executive Director</b>		
Mr. Sze Wai, Marco	1/1	100%

## **AUDITORS' REMUNERATION**

The Company reviews the appointment of external auditors on an annual basis including a review of the audit scope and approval of the audit fee. During the year, the fee payable to the Company's external auditors for the annual audit amounted to HK\$300,000 and no fee has been paid for non-audit related activities.

## AUDIT COMMITTEE

Under its terms of reference which are aligned with the code provisions set out in the Code, the Audit Committee is required to evaluate the overall effectiveness of the internal control and risk management frameworks, to review the accounting principles and practices adopted by the Group and other financial reporting matters and ensure the completeness, accuracy and fairness of the financial statements, to monitor compliance with statutory and listing requirements and to oversee the relationship with the external auditors.

The Audit Committee reviews the quarterly, interim and annual reports before submission to the Board. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's quarterly, interim and annual reports.

Senior representatives of the external auditors, Executive Directors and senior executives are invited to attend the meetings, if required. None of the Audit Committee members are members of the former or existing employees of the Company.

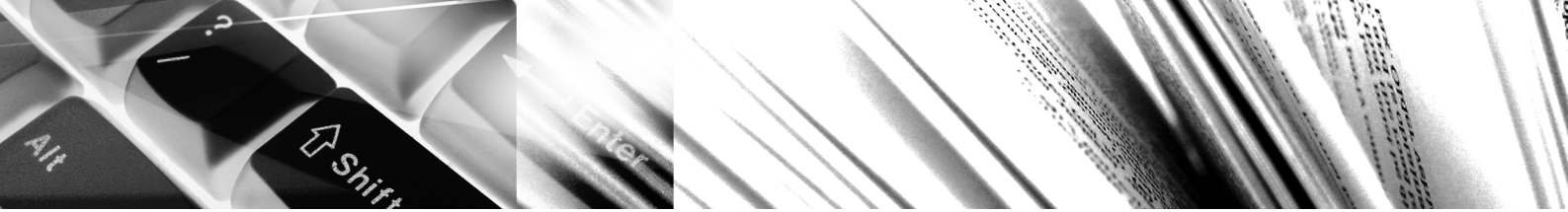
The Audit Committee met four times during the year and the attendance of each member is set out as follows:

<b>Independent Non-executive Directors</b>	<b>Attendance</b>	<b>Percentage</b>
Mr. Wang Tian Ye ( <i>Chairman</i> )	4/4	100%
Mr. Wang Bin (appointed on 13 June 2005)	2/2	100%
Mr. Xu Shi Hong (appointed on 13 June 2005)	2/2	100%
Mr. Song Jing Sheng (resigned on 13 June 2005)	2/2	100%
Mr. Ho Chen Yu (retired on 6 May 2005)	1/1	100%

## INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for the effectiveness of the Group's internal control systems. The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed, and by their nature can only provide reasonable, but not absolute assurance against misstatement or loss.

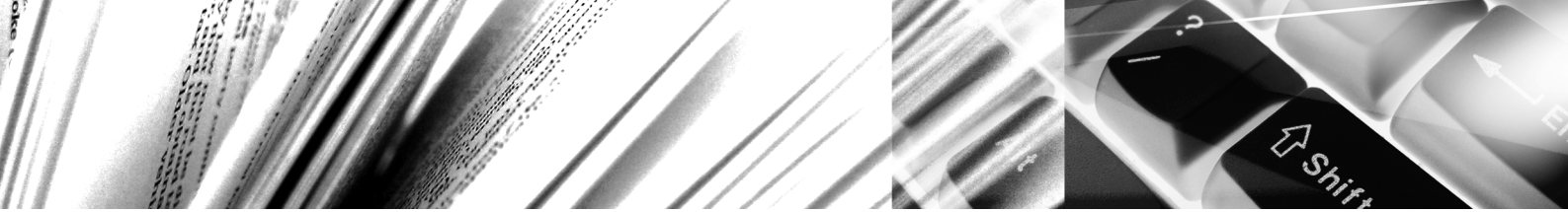
Procedures have been set up for safeguarding assets against unauthorised use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication. Qualified management throughout the Group maintains and monitors the internal control systems on an ongoing basis.



## **INVESTOR RELATIONS**

The Company uses two-way communication channels to account to shareholders and investors for the performance of the company. All the shareholders have 21 days' notice of annual general meeting at which directors are available to answer questions on the business. Extensive information about the Group's activities is provided in its Annual Report and Accounts and Interim Report which are sent to shareholders and investors. The Company's announcements, press release and publication are circulated and are also available on the Stock Exchange website.

In order to provide effective disclosure to shareholders and investors and to ensure they all receive equal access to the same information at the same time, information considered to be of a price sensitive nature is released by way of formal public announcement as required by the Listing Rules.



## DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS

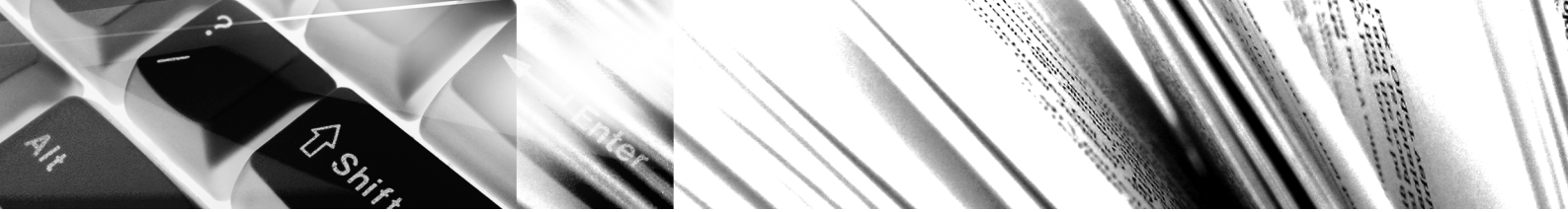
#### Executive Directors

**Mr. SZE Wai, Marco** (史偉), aged 40, is the chairman of the Group and is responsible for formulating the Group's business strategies. In the past 15 years, Mr. Sze has been actively involved in the investment and management of companies involving manufacturing, property development and investment, transportation, trading and IT. Mr. Sze joined the Group in September 2001 and is also the Chairman of FinTronics Holdings Company Limited ("FinTronics"), previously known as Start Technology Company Limited ("Start Technology").

**Mr. HE En Pei** (何恩培), aged 36, is an executive Director and the Chief Executive Officer of the Group is responsible for strategic planning and supervision of the overall operation of the Group. Mr. He is the elder brother of Mr. He Zhan Tao. Mr. He graduated from Huazhong University of Science & Technology (華中理工大學) with a master degree in Electronic Materials and Components in June 1995. Mr. He has been a practitioner in the field of information technology and has gained more than five years of experience in corporate management. Mr. He served as the chief officer of Advanced Technology (Zhuhai) Co. Ltd.\* (珠海南科電子有限公司) for one year supervising the testing, research and development and production departments. He was also the vice-president of Beijing Hong Da Electronic and Technology Centre\* (北京鴻達電子新技術研究所) from September 1996 to September 1997. Mr. He was nominated as the Year 99 PRC Top Ten IT Icons (99中國十大 IT風雲人物). The name and experiences of Mr. He has been written into the "The History of One Hundred Outstanding Entrepreneurs in China – 2001" (中國2001年百名優秀企業家創業史名錄). Mr. He worked in the Group since August 1998.

**Mr. CHU Chi Shing** (朱至誠), aged 38, joined the Group in June 2000 and is an executive Director and is responsible for formulating the marketing strategies of the Group. Mr. Chu graduated from Shanghai Jiao Tong University (上海交通大學) with a bachelor degree in Computer Science in July 1989. He gained many years of experience in the computer industry. Mr. Chu is also an executive director of FinTronics. Mr. Chu resigned from the position as an executive director of the Company on 1 October 2005.

**Mr. Tan Shu Jiang** (譚曙江), aged 37, joined the Group in November 2005 and is an executive director. He is responsible for the strategic planning and supervision of the overall operations of the Group. Mr. Tan graduated from Shanghai International Studies University and he has over 10 years of experience in the sales and marketing, technical and general management in the information technology businesses.



## *Directors and Senior Management*

### **DIRECTORS** *(Continued)*

#### **Executive Directors** *(Continued)*

**Mr. SHANG GUAN Bu Yan** (上官步燕), aged 43, joined the Group in early 2002 and is an executive Director. He is responsible for formulating the marketing strategies of the Group. Mr. Shang Guan graduated from National University of Defense Technology (中國人民解放軍國防科學技術大學) with a master degree in Science in December 1991. He has over 10 years of experience in the computer industry in the PRC. Mr. Shang Guan was once a senior management of Start Technology. Before joining Start Technology, he has been a managing director of Fujian Star System Integration Co., Ltd. (福建實達系統集成公司).

**Mr. CHEN Si Gen** (陳思根), aged 40, an executive Director and is responsible for the business development of the Group. Mr. Chen graduated from Shanghai Jiao Tong University (上海交通大學) with a master degree in Materials Science and Engineering in March 1994. Mr. Chen is experienced in project investment and management, corporate planning and project finance. Mr. Chen is a director and general manager of SJTU Venture Capital Co., Ltd. (上海交大創業投資有限公司). Mr. Chen joined the Group in September 2002.

**Mr. WANG Hui Bo** (王慧波), aged 32, an executive Director and is responsible for the business development of the Group. Mr. Wang graduated from Shanghai Jiao Tong University (上海交通大學) with a master degree in International Trade in January 2002. Mr. Wang has extensive experience in corporate and investment management. Mr. Wang is a director and general manager of Simplex Technology Investment (Hong Kong) Co. Limited (香港思源科技投資有限公司) and SJTU Software Investment Co., Limited (上海交大軟件產業投資有限公司). Mr. Wang joined the Group in September 2002. Mr. Wang resigned from the position as an executive director of the Company on 1 October 2005.

**Mr. HE Zhan Tao** (何戰濤), aged 32, an executive Director and Vice-President of the Group, is responsible for overseeing the product development of the Group. Mr. He is the younger brother of Mr. He En Pei. Mr. He graduated from Huazhong University of Science & Technology (華中理工大學) majoring in Computer Science and Engineering in July 1994. He was also the vice-president of Beijing Hong Da Electronic and Technology Centre\* (北京鴻達電子新技術研究所) from April 1996 to July 1997. Mr. He has over 10 years of experience in software development. Mr. He worked in the Group since August 1998. Mr. He resigned from the position as an executive director of the Company on 1 October 2005.

**Mr. CHEN Cheng Ping** (陳承平), aged 34, was an executive Director and was responsible for formulating the marketing strategies of the Group. Mr. Chen obtained a bachelor's degree in Mathematics from Fujian Normal University (福建師範大學) in June 1992. Prior to joining the Group in late 2001, Mr. Chen gained five years of experience in the computer industry and three years of experience in corporate and investment management. Mr. Chen resigned from the position as an executive Director of the Company on 4 February 2005.

**DIRECTORS** *(Continued)*

**Independent Non-Executive Directors**

**Mr. WANG Tian Ye** (王天也), aged 47, is an independent non-executive Director. Mr. Wang graduated from Macquarie University, Australia with a master degree in Applied Finance and is a senior Associate of Australian Institute of Banking and Finance in April 1996. Mr. Wang had served the Bank of China, Beijing Branch, for more than ten years and was once the deputy general manager of the Sydney Branch. He has extensive experience in the banking industry and investment in the PRC and Australia. Mr. Wang was appointed by the Group in November 2003.

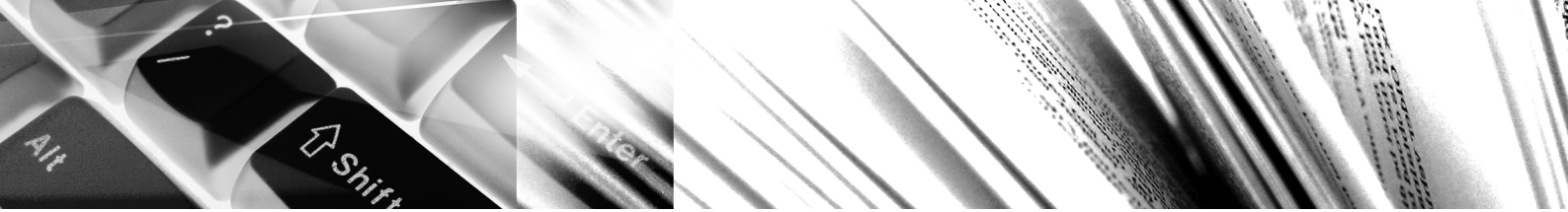
**Mr. SONG Jing Sheng** (宋京生), aged 48, an independent non-executive Director. Mr. Song graduated from the postgraduate school of Chinese Academy of Social Sciences (中國社會科學院) majoring in Finance in July 1998. Mr. Song has extensive experience in the banking and finance industry in the PRC. Currently, he is not under any employment. Mr. Song was appointed by the Group in November 2003 and left the Group in June 2005.

**Mr. Wang Bin** (王斌), aged 37, an independent non-executive Director. Mr. Wang graduated from Nakai University with a bachelor degree in philosophy. He has over 10 years of experience in security consultancy and brokerage business. Mr. Wang is currently the Vice President of China Chenxin Financial Consulting Co., Ltd in the PRC. Mr. Wang was appointed by the Group in June 2005.

**Mr. Xu Shi Hong** (徐時弘), aged 43, an independent non-executive Director. Mr. Xu graduated from Beijing College of Economics (now known as Capital university of Economics and Business). He has over 20 years of experience in financial management and currently holds a financial management position in China Travel Services Head Office (中國旅行社總社) in the PRC. Mr. Xu was appointed by the Group in June 2005.

**Mr. Ho Chen-yu** (何震宇), aged 45, an independent non-executive Director. Mr. Ho graduated from the Wharton School of the University of Pennsylvania with an MBA. He is a member of the American Institute of Certified Public Accountants and a Chartered Financial Analyst. He has been an experienced equity and venture investor over the past eighteen years. He worked for Fidelity Investments and Merrill Lynch in an investment management capacity in the United States. After the relocation to Taiwan in 1996, Mr. Ho served as head of research for Capital Securities Corporation in Taiwan and founded SoftChina Venture Group, managing a venture portfolio of US\$30 million. Afterwards, Mr. Ho had joined AIG Global Investment Corporation as direct investment director and orchestrated and invested several successful investments in the Greater China Region since 2002. Mr. Ho was appointed by the Group on 28 September 2004 and retire as a director on 6 May 2005.





## *Directors and Senior Management*

### **MANAGEMENT**

#### **Senior Management**

**Ms. Gao Pei Hong** (郜佩虹), aged 38, is the Vice President of the Group and responsible for the strategic development and sales and marketing of the Group. Ms. Gao graduated from Chongqing University (重慶大學) majoring in mechanical engineering. Ms. Gao has over 10 years of experience in the field of information technology and experience in software development, design implementation, customer relationship and project management. Ms. Gao joined the Group in Nov 2005.

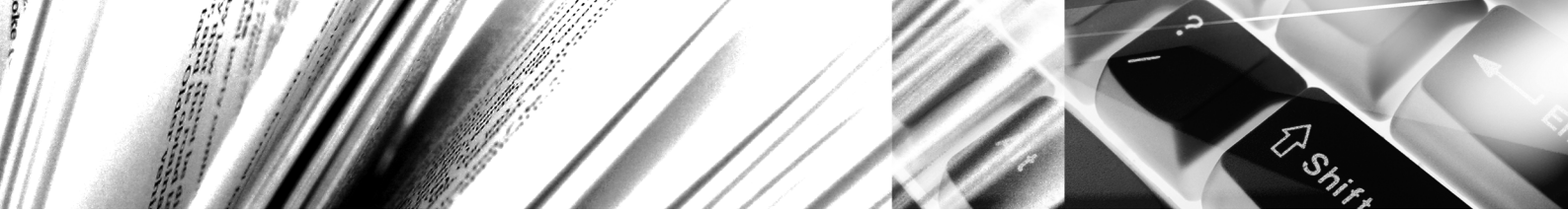
**Mr. NIU Jie** (牛杰), aged 31, is the Vice-President for the Group's strategic development department, and responsible for the strategic development and overseas sales and marketing of the Group. Mr. Niu graduated from Anhui University (安徽大學) majoring in Computer Application. Mr. Niu gained over 5 years of experience in the field of information technology and was the senior economist of the Beijing Applied Science Institute (北京應用科學院高級經濟師). Mr. Niu also served as the manager of the marketing department of Beijing Hong Da Electronic and Technology Centre\* (北京鴻達電子新技術研究所) from September 1996 to August 1997. Mr. Niu joined the Group in September 1997 and left the Group in November 2005.

**Ms. YAN Li Li** (閻栗麗), aged 33, is the general manager of the Group's translation business department. Ms. Yan graduated from Kunming Engineering Institute (昆明工學院) with a bachelor's degree in Civil Engineering. She served as the manager of the development and planning department of Beijing Hong Da Electronic and Technology Centre\* (北京鴻達電子新技術研究所) from October 1996 to September 1997. Ms. Yan has worked in the Group since August 1998 and left the Group in November 2005.

**Ms. AN Jie** (安杰), aged 36, is the financial controller of the Group in the PRC. Ms. An graduated from Renmin University of China (中國人民大學) majoring in Accountancy and is a PRC's qualified accountant (會計師資格). Ms. An had served as the manager of the finance department of Beijing Rui Yi Industrial Development Co. Ltd.\* (北京市銳意工貿發展有限公司) for more than three years prior to joining the Group in August 1998.

#### **Company Secretary**

**Mr. HO Shu Pui** (何樹培), aged 32, is the company secretary of the Company. Mr. Ho has over eight years of experience in auditing and accounting and he is an associate member of the Hong Kong Institute of Certified Public Accountants and the Hong Kong Institute of Company Secretaries.



## REPORT OF THE DIRECTORS

The Directors hereby present their annual report together with the audited financial statements of the Company and the Group for the year ended 31 December 2005.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding while the Group is principally engaged in the information localisation business during the year, including the provision of translation services using the translation software developed by the Group.

The principal activities of the principal subsidiaries are set out in note 38 to the financial statements.

### MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	46%	
Five largest customers in aggregate	65%	
The largest supplier		0%
Five largest suppliers in aggregate		0%

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in these major customers and suppliers.

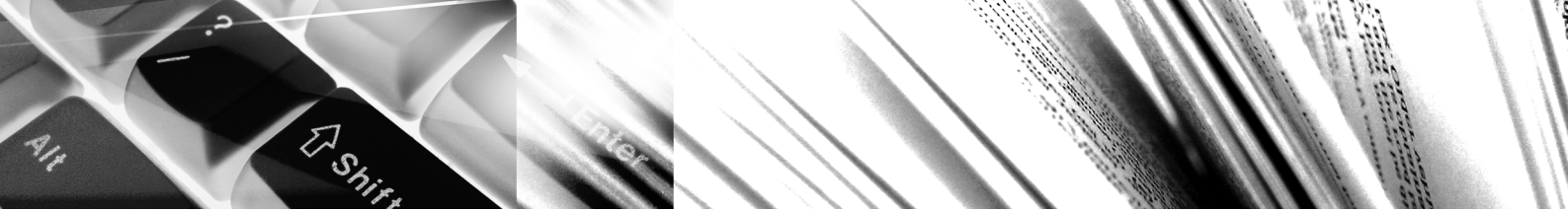
### FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2005 and the state of the Group's affairs as at that date are set out in the financial statements on pages 33 to 83.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2005.

### RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on the financial statements.



## Report of the Directors

### **DISTRIBUTABLE RESERVES**

As at 31 December 2005, the Company's reserves available for distribution calculated in accordance with the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands amounted to HK\$2,927,119 (2004: HK\$2,927,119). These reserves may be distributed provided that immediately following the date on which the distribution is proposed to be made, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

### **PROPERTY, PLANT AND EQUIPMENT**

Details of the movements in property, plant and equipment of the Group are set out in note 18 on the financial statements.

### **SHARE CAPITAL**

Details of the movements in the share capital of the Company during the financial year are set out in note 32 on the financial statements.

### **DIRECTORS**

The Directors during the financial year were:

#### **Executive Directors**

Mr. Sze Wai, Marco, *Chairman*

Mr. He En Pei, *Chief Executive Officer*

Mr. Tan Shu Jiang (appointed on 1 November 2005)

Mr. Chu Chi Shing (resigned on 1 October 2005)

Mr. Shang Guan Bu Yan

Mr. Chen Si Gen

Mr. Wang Hui Bo (resigned on 1 October 2005)

Mr. He Zhan Tao (resigned on 1 October 2005)

#### **Independent Non-executive Directors**

Mr. Wang Tian Ye

Mr. Wang Bin (appointed on 13 June 2005)

Mr. Xu Shi Hong (appointed on 13 June 2005)

Mr. Song Jing Sheng (resigned on 13 June 2005)

Mr. Ho Chen-yu (retired on 6 May 2005)

**DIRECTORS** (Continued)

In accordance with article 108 (A) of the Company's articles of association, one-third of the Directors for the time being, other than a Director holding office as Chairman or Deputy Chairman, shall retire at each Annual General Meeting from office by rotation. Further, according to article 112 of the articles of association of the Company, any director appointed by the Directors to fill a casual vacancy in the Company under that article shall hold office only until the next following Annual General Meeting and shall then be eligible for re-election at the meeting.

Accordingly, in accordance with article 108(A) of the Company's articles of association, Mr. He En Pei, Mr. Shang Guan Bu Yan and Mr. Wang Tian Ye will retire from the Board by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

**DIRECTORS' SERVICE CONTRACTS**

Each of the executive Directors has entered into a service contract with the Company for an initial terms of one to three years, and is automatically renewable for successive terms of one year upon expiry of the then current term, until terminated by not less than three months' notice in writing served by either party or the other.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES**

As at 31 December 2005, the interests and short positions of the Directors or the chief executive in the shares of the Company ("Shares"), underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules were as follows:

Name of Directors	Nature of Interest	Number and class of securities (Note 1)
He En Pei	Beneficial interest	1,770,000 shares (L) (Note 2)

Notes:

1. The letter "L" represents the interests in the share and underlying shares of the Company.
2. These shares represent the respective number of shares which would be allotted and issued upon exercise in full of the options granted to each of He En Pei and He Zhan Tao under the share option scheme of the Company.

## SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTEREST

### A. Substantial Shareholders

So far as is known to the Directors, as at 31 December 2005, the following persons, other than a director or chief executive of the Company, had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO and who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Name	Capacity	Number of Shares (Note 1)	Approximate percentage of shareholding
Chu Yuet Wah	Beneficial owner and interest of a controlled corporation (Note 2)	65,975,828 (L)	32.99%
Kingston Finance Limited	Beneficial owner	64,355,828 (L)	32.18%
Ma Siu Fong	Interest of a controlled corporation	64,355,828 (L)	32.18%
Futart Industry Company Limited ("Futart")	Beneficial owner	64,355,828 (L)	32.18%
FinTronics Holdings Company Limited ("FinTronics")	Interest of a controlled corporation (note 2)	64,355,828 (L)	32.18%
Simplex Technology Investment (Hongkong) Co. Limited ("Simplex")	Beneficial owner	22,528,484 (L)	11.26%
Shanghai Jiaoda Industrial Investment Management (Group) Limited ("Jiaoda Industrial Group")	Interest of a controlled corporation (note 3)	22,528,484 (L)	11.26%
Shanghai Jiao Tong University	Interest of a controlled corporation (note 3)	22,528,484 (L)	11.26%
Hongkong Sunway Technology Development Limited ("HK Sunway")	Beneficial owner	20,157,757 (L)	10.08%

**SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTEREST** (Continued)

**A. Substantial Shareholders** (Continued)

*Notes:*

1. The letter "L" denotes the entity's interests in the Shares.
2. 1,620,000 Shares are beneficially owned by Chu Yuet Wah. The interests in 64,355,828 Shares are held through Kingston Finance Limited, the entire issued capital of which is owned by Chu Yuet Wah as to 51% and Ma Siu Fong as to 49%.
3. The interest in the Shares are held through Futart, the entire issued share capital of which is beneficially owned by FinTronics, a company whose shares are listed on the Main Board of the Stock Exchange. The issued share capital of FinTronics Holdings Company Ltd is owned as to approximately 25.05% by Leading Value Industrial Limited which is in turn owned as to 100% by Mr. Sze Wai, Marco, an executive Director.
4. The interests in the Shares are held through Simplex, the entire issued share capital of which is beneficially owned by Jiaoda Industrial Group. The registered capital of Jiaoda Industrial Group is owned as to 96.735% by Shanghai Jiao Tong University and 3.265% by Shanghai Jiaoda Enterprise Management Centre\* (上海交大企業管理中心), an entity wholly owned by Shanghai Jiao Tong University.

The Company has not been notified of other interests or short positions of any other person (other than the Directors and chief executive and the substantial shareholders of the Company) in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 31 December 2005.

**SHARE OPTION SCHEME**

The Company operates a share option scheme (the "Scheme") which was adopted on 25 November 2003 whereby the Directors of the Company may at their discretion invite any employees, directors, suppliers, customers, advisers, consultants, joint venture partners, and any shareholders of any members of the Group or any invested entities or any holders of any securities issued by any member of the Group or any invested entities, to take up options to subscribe for Shares. The Scheme became effective upon the listing of the Company's shares on the GEM of the Stock Exchange on 9 January 2004. On 17 January 2005, options entitling the holders thereof to subscribe for an aggregate of 7,500,000 shares were granted to directors, employees, technical consultants, initial management shareholders and a substantial shareholder of the Company. The fair value of options granted on 17 January 2005 is determined to be HK\$0.2442 at the grant date. On 10 October 2005, 12,800,000 share options were granted to directors, employees and consultants of the Company. The fair value of options granted on 10 October 2005 is determined to be HK\$0.1133 at the grant date.

**SHARE OPTION SCHEME** (Continued)

The valuations were based on the Binomial Model with the following data and assumptions:

	<b>17 January 2005</b>	<b>10 October 2005</b>
Share Price at the Grant Date	HK\$0.445	HK\$0.140
Exercise Price	HK\$0.45	HK\$0.140
Expected Volatility	75% per annum	75% per annum
Option Life	10 years	10 years
Expected Dividend Yield	0% per annum	0% per annum
Risk-free Interest Rate	2.89% per annum	4.13% per annum

In respect of the share options granted on 17th January 2005, the valuation of the fair value as at the balance sheet date was conducted by a professional valuation company, Watson Wyatt Hong Kong Limited on 4th August 2005. According to its report, the volatility rate of the share price of the Company was determined with reference to the movement of selected comparators' share prices during the period from November 1999 to July 2005. Taking into account the probability of leaving employment and early exercise behavior stated above, the expected life of the grant of options was estimated to be 5.24 years. The risk-free interest rate is taken to be the linearly interpolated yield using Hong Kong Exchange Fund Notes as at 17th January 2005. It is expected that option holders will exercise when the share price is at least 325% of the exercise price.

In respect of the share options granted on 10th October 2005, the valuation of their fair value as at the balance sheet date was conducted by another professional valuation company, B.I. Appraisals Limited, on 22nd March 2005. According to its report, historical volatility rate of the share price of the Company was determined with reference to the 90-day historical share prices of the Company proceeding the balance sheet date. Risk-free rate of 4.127% were adopted which were the Hong Kong Interbank Offered Rates (6-months) as at the end of December 2005. Other terms and conditions of these options including but not limited to the exercise condition, number of share outstanding, strike price and conversion numbers of the options.

Date of grant	Exercise period	Exercise price per share (HK\$)	Number of options		
			Granted during the year	Cancelled during the year	Outstanding at 31.12.2005
<b>Directors</b>					
17.01.2005	17.1.2005 – 16.1.2015	0.45	2,020,000	(250,000)	1,770,000
10.10.2005	10.10.2005 – 9.10.2015	0.14	4,700,000	–	4,700,000
			<u>6,720,000</u>	<u>(250,000)</u>	<u>6,470,000</u>

**SHARE OPTION SCHEME** (Continued)

Date of grant	Exercise period	Exercise price per share (HK\$)	Number of options		Outstanding at 31.12.2005	
			Granted during the year	Cancelled during the year		
Employees, consultants and others	17.01.2005	17.1.2005 – 16.1.2015	0.45	5,480,000	(2,480,000)	3,000,000
	10.10.2005	10.10.2005 – 9.10.2015	0.14	8,100,000	(2,500,000)	5,600,000
				<u>13,580,000</u>	<u>(4,980,000)</u>	<u>8,600,000</u>

**COMPLIANCE ADVISER'S INTEREST**

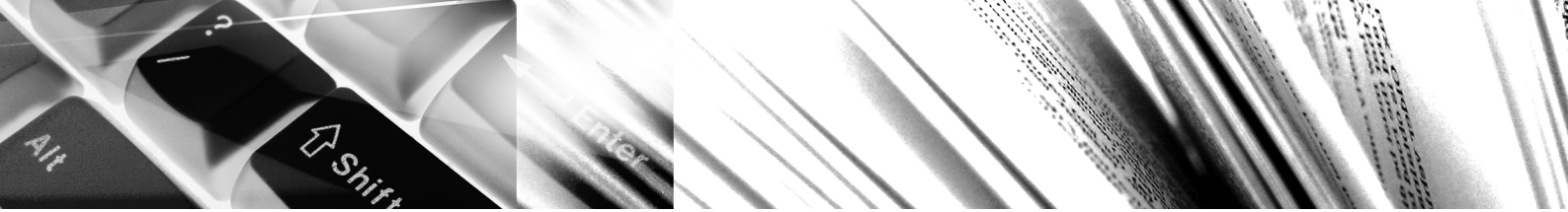
Pursuant to the agreement dated 31 December 2003 entered into between the Company and Core Pacific-Yamaichi Capital Limited ("CPY Capital"), CPY Capital acts as the Company's compliance adviser for a period commencing from 9 January 2004 to 31 December 2006 and CPY Capital will receive fees for acting as the Company's compliance adviser.

At 31 December 2005, as notified and updated by CPY Capital pursuant to Rule 6.35 of the GEM Listing Rules, CPY Capital, its directors, employees or associates, did not have any interest in the share capital of the Company or any of its subsidiaries, or any right to subscribe for or to nominate persons to subscribe for the share capital of the Company or any of its subsidiaries.

**DIRECTORS' INTERESTS IN CONTRACTS**

No contract of significance to which the Company, any of its subsidiaries or fellow subsidiaries was a party, in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.





## *Report of the Directors*

### **PRE-EMPTIVE RIGHTS**

There are no provision for pre-emptive rights under the Company's articles of association although there are no restrictions against such rights under the law in the Cayman Islands.

### **BANK LOAN**

Particulars of bank loan of the Group as at 31 December 2005 are set out in note 30 on the financial statements.

### **FIVE YEARS FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 84 of the annual report.

### **RETIREMENT SCHEMES**

Particulars of the retirement schemes of the Group are set out in note 31 on the financial statements.

### **COMPETING INTERESTS**

None of the Directors and management shareholders of the Company (within the meaning of the GEM Listing Rules) has an interest in any business which competes or may compete with the business in which the Company is engaged.

### **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasise a quality board, sound internal control, and transparency and accountability to all shareholders. The Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules ("Code on CG Practices") throughout the year ended 31 December 2005. Details of the Code adopted by the Company is set out in the section of Corporate Governance Report.

## **AUDIT COMMITTEE**

The Company has established audit committee with written terms of reference. The primary duties of the audit committee are to review, in draft form, the Company's annual report and accounts, half-year report, quarterly report and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the financial reporting process and internal controls of the Group. The audit committee comprises three independent non-executive directors, namely Mr. Wang Tian Ye, Mr. Xu Shi Hong and Mr. Wang Bin. Mr Wang Tian Ye is the chairman of the audit committee. The audit committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters, including a review of the annual report for the year ended 31 December 2005 with the Directors.

## **INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS**

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Board still considers each of the independent non-executive Directors to be independent.

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

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2005.

## **CONNECTED TRANSACTION**

During the year ended 31 December 2005, there were no transactions which are required to be disclosed in accordance with announcement and reporting requirements under the GEM Listing Rules.

## **AUDITORS**

KPMG were auditors of the Company for the year ended 31 December 2004. ShineWing (HK) CPA Limited, who was appointed as auditors of the Company by the Board of Directors to fill the casual vacancy arising from the resignation of KPMG on 24 January 2006.

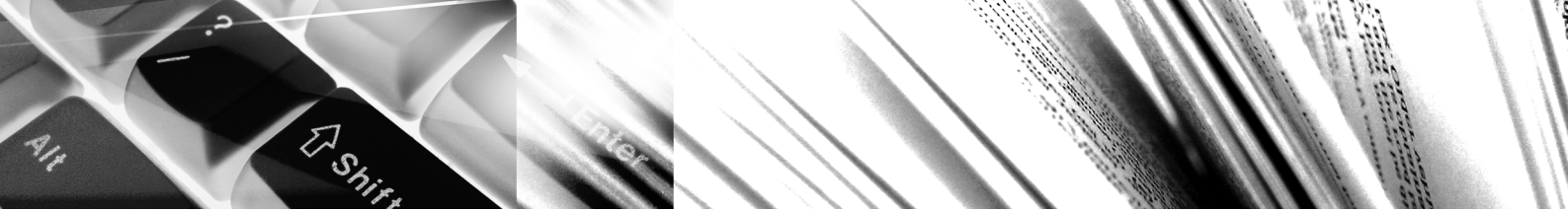
The financial statements have been audited by ShineWing (HK) CPA Limited, who will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

**Sze Wai, Marco**

*Chairman*

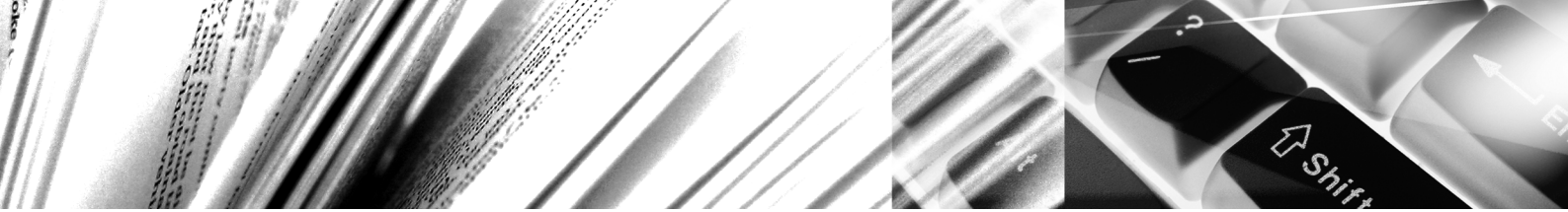
Hong Kong, 27 March 2006



## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

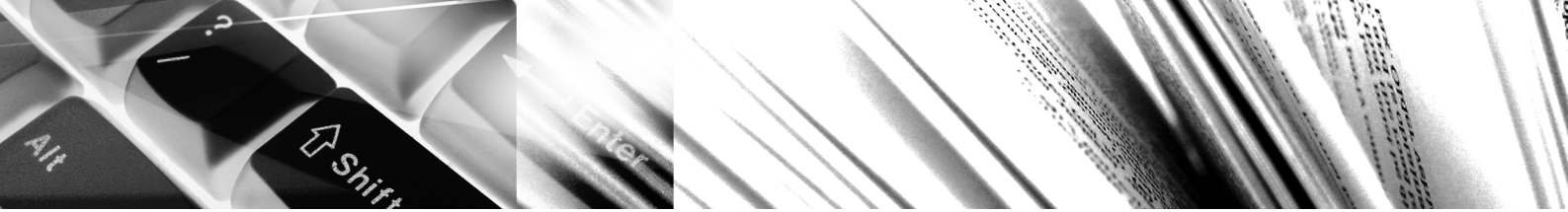
An analysis comparing the business objectives as stated in the Company's prospectus dated 30 December 2003 (the "Prospectus") with the Group's actual business progress up to 31 December 2005 is set out below:

	<b>Business objectives up to 31 December 2005 as stated in the Prospectus</b>	<b>Actual business progress up to 31 December 2005</b>
<i>I. Enhancement of existing products &amp; services and development of new products &amp; services</i>		
(1) Translation software (information localisation)		
➤ Oriental Express	To launch "Oriental Express 2006" for ordinary users and professional translation tools for other two industries	Postponed
➤ Yaxin CAT, Yaxin CATS and Yaxin SCAT	To promote the application of CAT on the governmental level in multi-language spoken countries	Completed the development of CAE study system for Yaxin CAT and is now successfully applying in "Lingoworld" and industrial clients
➤ Lingoworld	To increase the productivity up to 5 million words per day time translation services	Successfully established financial, legal and mechanical engineering translation centres
➤ Translation services sales channel	Continue to recruit additional sales agencies in the PRC and conduct feasibility on establishing sales points in the US	Recruited sales agencies in Shanghai and Fuzhou



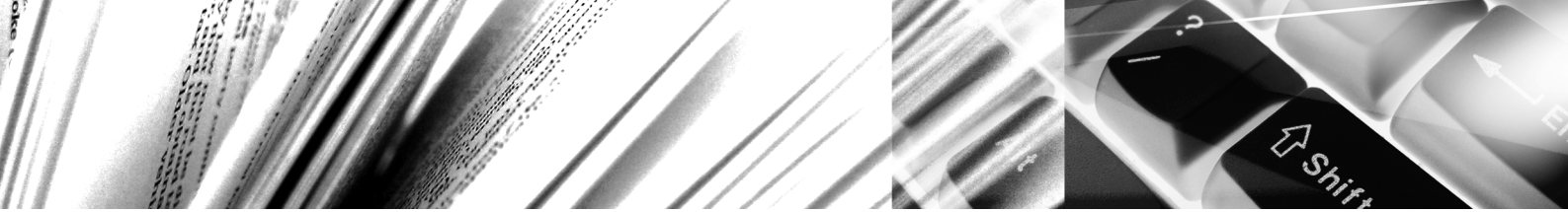
*Comparison of Business Objectives with Actual Business Progress*

	<b>Business objectives up to 31 December 2005 as stated in the Prospectus</b>	<b>Actual business progress up to 31 December 2005</b>
<b>(2) Information Security Software</b>		
<ul style="list-style-type: none"> <li>➤ Oriental Guard for PC</li> <li>➤ Oriental Guard for enterprise version</li> <li>➤ Information solutions and services</li> </ul>	<p>To launch "Oriental Guard 5.0 and 5.5".</p> <p>To introduce "Oriental Guard 5.5" targeting SME with strengthened online virus-scanning and data reserves function</p> <p>To enhance data security solution and anti-virus services for large sized enterprises</p>	<p>Developments on hold</p> <p>Developments on hold</p> <p>Developments on hold</p>
<b>(3) General software</b>		
<ul style="list-style-type: none"> <li>➤ Multimedia tools</li> <li>➤ Internet application</li> </ul>	<p>To enhance interactive entertainment solution for broadcasting over the internet</p> <p>To promote I-software's application in daily life; To develop second generation digital entertainment platform with enhanced functions and better services</p>	<p>Developments on hold</p> <p>Developments on hold</p>



*Comparison of Business Objectives with Actual Business Progress*

	<b>Business objectives up to 31 December 2005 as stated in the Prospectus</b>	<b>Actual business progress up to 31 December 2005</b>
<i>II. Increase Market Coverage</i>		
<ul style="list-style-type: none"> <li>➤ Increase market coverage in the PRC</li>   <li>➤ Increase coverage in overseas market</li> </ul>	<p>Continue to establish sales offices or liaison office in developing cities e.g. Nanchang, Hefei</p> <p>Continue to further develop its marketing and sales channels in overseas market</p>	<p>Plan to expand business to other areas, and business has already been rolled out in Chongqing and Xian</p> <p>The Group continues to explore the possibility of becoming the service partner of overseas translation agencies, which will enable the capturing Chinese language related business</p>
<i>III. Promote the Company's brand name</i>		
<ul style="list-style-type: none"> <li>➤ Marketing and promotion activities</li> </ul>	<p>Continue to launch marketing and sales activities and develop overseas business activities</p>	<p>Further strengthening the Group's status and image by actively taking part in industry events and organize customers' seminars</p>
<i>IV. Potential acquisition and strategic alliances</i>		
<ul style="list-style-type: none"> <li>–</li> </ul>	<p>–</p>	<p>During the year, the Group has entered into two acquisitions to acquire businesses in translation and sale and development of jukebox</p>

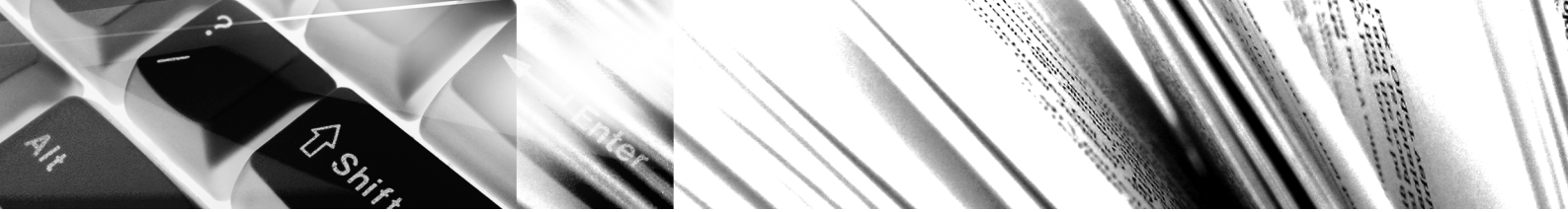


*Comparison of Business Objectives with Actual Business Progress*

**USE OF PROCEEDS**

The net proceeds for issue of new shares on 9 January 2004 received by the Company was approximately HK\$17.8 million. During the period between the Latest Practicable Date ("LPD") as defined in the Prospectus (being 23 December 2003) and 31 December 2005, the net proceeds for issue of new shares had been applied as follows:

	<b>Planned use of proceeds as stated in the Prospectus from the LPD to 31 December 2005 (HK\$'000)</b>	<b>Actual use of proceeds from the LPD to 31 December 2005 (HK\$'000)</b>
Improvement in research and development of existing and new products	4,000	4,000
Increase market coverage in the PRC and overseas	4,000	4,000
Promotion of the Group's brand name	5,000	5,000
Potential acquisition and strategic alliances	4,000	4,000
	<hr/>	<hr/>
Total	17,000	17,000
	<hr/>	<hr/>



## REPORT OF THE AUDITORS

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SHINEWING (HK) CPA Limited  
Suites 09-18, 20/F.  
Shui On Centre  
6-8 Harbour Road  
Wanchai, Hong Kong

**TO THE MEMBERS OF  
SJTU SUNWAY SOFTWARE INDUSTRY LIMITED**  
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of the Group from pages 33 to 83 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 consolidated financial statements which give a true and fair view. In preparing consolidated 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 content 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 except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

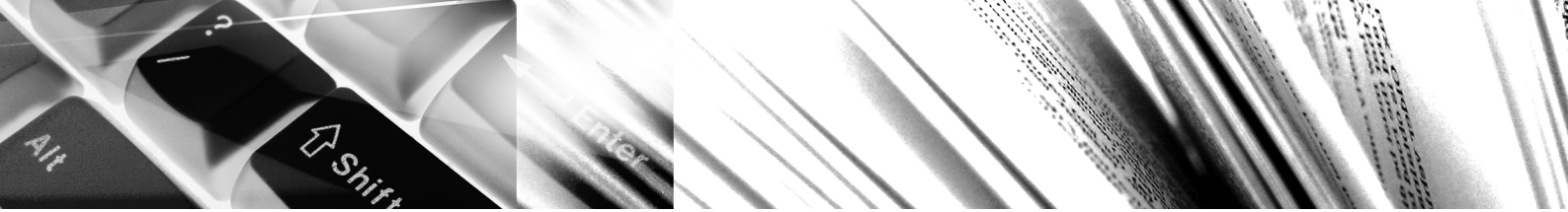
We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. However, the evidence available to us was limited:

**Fundamental uncertainty and limitations of audit scope**

- (i) Included in the consolidated balance sheet as at 31st December 2005 are investment funds of HK\$16.4 million which were held in custody by an independent company incorporated in the People's Republic of China (the "PRC"), 北京盛邦投资有限公司. We were unable to obtain sufficient documentary evidence to satisfy ourselves as to the Company's ownership and to assess whether any impairment loss is required to be recognised in respect of this investment funds.
- (ii) Included in the consolidated balance sheet as at 31st December 2005 is deposit for acquisition of subsidiaries of HK\$12.7 million in respect of deposit paid to an independent third party for acquisition of Mighty Wish Services Limited ("Mighty Wish") and Shanghai Ruijin Translation Company Limited ("Translation Company"). However, as explained in note 25 to the consolidated financial statements which explain the details of the deposit and we were unable to obtain evidence to satisfy ourselves to the ability and commitment of that independent third party to complete the transactions. Furthermore, we were unable to obtain sufficient documentary evidence to satisfy ourselves as to the Company's ownership and to assess whether any impairment loss is required to be recognised in respect of this deposit.
- (iii) Included in the consolidated balance sheet as at 31st December 2005 is goodwill of HK\$9.7 million in respect of goodwill arising from the acquisition of a subsidiary, New Champion International Limited, during the year. We were unable to obtain sufficient documentary evidence to satisfy ourselves as to assess whether any impairment loss is required to be recognised in respect of the goodwill.
- (iv) Included in the consolidated balance sheet as at 31st December 2005 is interest in an associate of HK\$4.8 million in respect of the equity interest in Beijing Advanced Information Storage Technology Co., Ltd. ("Beijing AIS") of which was held directly by New Champion International Limited. We were unable to obtain sufficient documentary evidence to satisfy ourselves as to assess whether any impairment is required to be recognised in respect of New Champion International Limited's goodwill arising from acquisition of equity interest in Beijing AIS of HK\$3.4 million.

There were no other satisfactory audit procedures that we could adopt to satisfy ourselves in respect of the matters set out in (i) to (iv) above. Any adjustments found to be necessary would affect the net assets of the Group as at 31st December 2005 and the loss of the Group for the year then ended.





## *Report of the Auditors*

### **Fundamental uncertainty relating to the going concern basis**

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the consolidated financial statements concerning the adoption of the going concern basis, being the basis on which the consolidated financial statements have been prepared. As explained in note 2 to the consolidated financial statements, the Group is currently undertaking a number of measures to relieve its current profitability and liquidity problem. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the arrangement for long term financing with its existing bankers, the ability to obtain continuing financial support from the controlling shareholders and to explore income generating investments in the PRC, to meet the Group's future working capital and financing requirements. The consolidated financial statements do not include any adjustments that may be necessary should the implementation of such measures be unsuccessful. We consider that appropriate disclosures have been made, but the inherent uncertainties surrounding the circumstances under which the Group might successfully continue to adopt the going concern basis are so extreme that we have disclaimed our opinion.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **Disclaimer of opinion**

Because of the significance of the fundamental uncertainty relating to the going concern basis and each of the possible effects of the limitations in evidence available to us, we are unable to form an opinion as to whether the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December 2005 and of the loss and cash flows of the Group for the year then ended. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work relating to investment funds, deposit paid for acquisition of subsidiaries, goodwill and interest in an associate, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

### **ShineWing (HK) CPA Limited**

*Certified Public Accountants*

### **Lau Miu Man**

Practising Certificate Number: P03603

Hong Kong

27 March 2006

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Notes	2005 HK\$	2004 HK\$ (restated)
<b>Revenue</b>	8	<b>3,763,589</b>	13,949,217
Cost of sales		<b>(2,591,856)</b>	(9,573,605)
<b>Gross profit</b>		<b>1,171,733</b>	4,375,612
Other operating income	8	<b>146,306</b>	1,114,638
Selling expenses		<b>(4,823,871)</b>	(14,952,792)
Research and development costs	10	<b>(1,598,194)</b>	(3,416,519)
Administrative expenses		<b>(29,467,653)</b>	(12,477,941)
Finance costs	11	<b>(1,124,725)</b>	(631,050)
Share of results of associates		<b>(658,940)</b>	4,700
Loss on disposal of an associate		<b>(3,097,889)</b>	–
<b>Loss before tax</b>	12	<b>(39,453,233)</b>	(25,983,352)
Income tax expenses	13	<b>(5,722)</b>	(373)
<b>Loss for the year</b>		<b>(39,458,955)</b>	(25,983,725)
<b>Attributable to:</b>			
Equity holders of the parent		<b>(38,371,804)</b>	(25,495,725)
Minority interests		<b>(1,087,151)</b>	(488,000)
		<b>(39,458,955)</b>	(25,983,725)
<b>Dividend</b>	16	–	–
<b>Loss per share</b>	17		
Basic		<b>(19.19) cents</b>	(12.82) cents
Diluted		N/A	N/A

# CONSOLIDATED BALANCE SHEET

At 31st December 2005

	Notes	2005 HK\$	2004 HK\$ (restated)
<b>Non-current assets</b>			
Property, plant and equipment	18	1,614,470	4,425,602
Intangible assets	19	4,247,153	4,574,374
Interest in an associate	20	4,848,508	3,306,587
Goodwill	21	9,697,350	–
		<b>20,407,481</b>	<b>12,306,563</b>
<b>Current assets</b>			
Inventories	22	–	2,559,205
Trade receivables	23	416,900	8,338,684
Prepayments, deposits and other receivables		1,125,145	5,940,843
Investment funds	24	16,427,085	7,966,671
Deposit for acquisition of subsidiaries	25	12,710,149	1,905,660
Loans to minority shareholders	26	–	1,396,226
Tax recoverable		–	111,448
Bank balances and cash		560,993	31,065,922
		<b>31,240,272</b>	<b>59,284,659</b>
<b>Current liabilities</b>			
Trade and other payables	27	6,138,428	5,372,608
Amount due to a shareholder	28	18,217,071	2,427,709
Amounts due to directors	29	1,322,037	664,700
Borrowings	30	13,643,868	14,622,641
		<b>39,321,404</b>	<b>23,087,658</b>
<b>Net current (liabilities)/assets</b>		<b>(8,081,132)</b>	<b>36,197,001</b>
<b>Net assets</b>		<b>12,326,349</b>	<b>48,503,564</b>
<b>Capital and reserves</b>			
Share capital	32	2,000,000	2,000,000
Reserves		9,326,028	44,416,092
<b>Equity attributable to equity holders of the parent</b>		<b>11,326,028</b>	<b>46,416,092</b>
<b>Minority interests</b>		<b>1,000,321</b>	<b>2,087,472</b>
		<b>12,326,349</b>	<b>48,503,564</b>

The financial statements on pages 33 to 83 were approved and authorised for issue by the Board of Directors on 27th March 2006 and are signed on its behalf by:

**Sze Wai, Marco**  
Chairman

**He En Pei**  
Chief Executive Officer

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2005

	Attributable to equity holders of the parent								
	Share capital HK\$	Share premium HK\$ (Note (i))	Capital surplus HK\$ (Note (ii))	General reserve HK\$ (Note (iii))	Share-based payment reserve HK\$	Retained earnings/ (accumulated losses) HK\$	Total HK\$	Minority interests HK\$	Total HK\$
At 1st January 2004	200,000	13,557,045	15,089,717	2,927,119	-	21,670,946	53,444,827	-	53,444,827
Loss for the year	-	-	-	-	-	(25,495,725)	(25,495,725)	(488,000)	(25,983,725)
Premium arising from the issuance of shares for cash	700,000	29,400,000	-	-	-	-	30,100,000	-	30,100,000
Capital injection from minority shareholders	-	-	-	-	-	-	-	2,575,472	2,575,472
Shares issuance expenses	-	(11,633,010)	-	-	-	-	(11,633,010)	-	(11,633,010)
Capitalisation issue	1,100,000	(1,100,000)	-	-	-	-	-	-	-
At 31st December 2004 and 1st January 2005	2,000,000	30,224,035	15,089,717	2,927,119	-	(3,824,779)	46,416,092	2,087,472	48,503,564
Loss for the year	-	-	-	-	-	(38,371,804)	(38,371,804)	(1,087,151)	(39,458,955)
Recognition of equity-settled share based payment	-	-	-	-	3,281,740	-	3,281,740	-	3,281,740
<b>At 31st December 2005</b>	<b>2,000,000</b>	<b>30,224,035</b>	<b>15,089,717</b>	<b>2,927,119</b>	<b>3,281,740</b>	<b>(42,196,583)</b>	<b>11,326,028</b>	<b>1,000,321</b>	<b>12,326,349</b>

Notes:

(i) Share premium

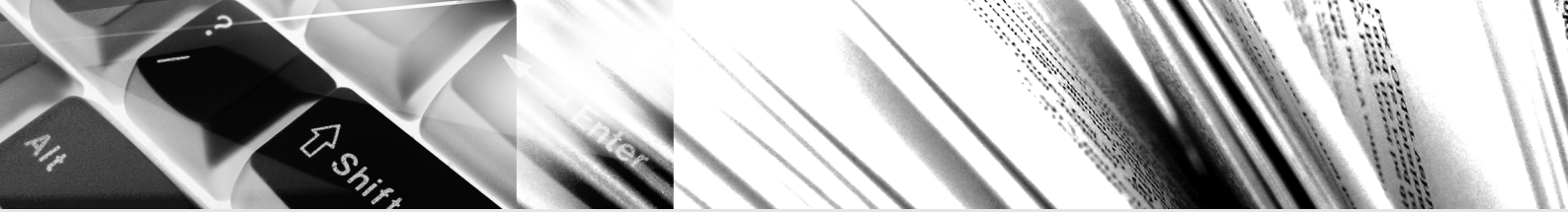
Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall in the ordinary course of business.

(ii) Capital surplus

Capital surplus mainly represents the waiver of loans from the then shareholders of Besto Investment Limited, which was contributed as part of the capital to SJTU Sunway Information Technology Co., Ltd.

(iii) General reserve

According to its articles of association of the subsidiaries in the PRC, the subsidiaries are required to set up a general reserve and the transfer to this fund are at the discretion of the Company. This fund can be utilised to acquire property, plant and equipment, to increase current assets and may be converted into paid-in capital. Transfers from this fund are subject to approval by its board of directors.



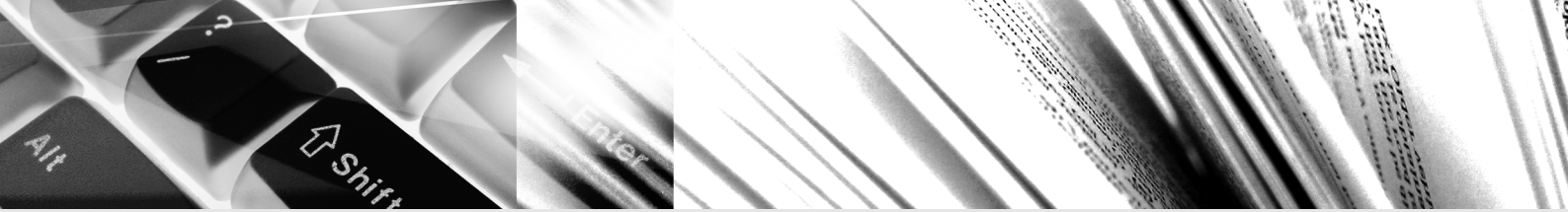
## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2005

	2005	2004
	<i>HK\$</i>	<i>HK\$</i>
		(restated)
<b>OPERATING ACTIVITIES</b>		
Loss before tax	<b>(39,453,233)</b>	(25,983,352)
Adjustments for:		
Amortisation of intangible assets	<b>1,160,580</b>	2,202,037
Impairment of intangible assets	<b>437,614</b>	1,214,482
Depreciation	<b>1,230,778</b>	971,160
Loss on disposal of property, plant and equipment	<b>46,975</b>	–
Finance costs	<b>1,124,725</b>	631,050
Interest income	<b>(81,934)</b>	(22,003)
Share-based payments	<b>3,281,740</b>	–
Allowance for bad and doubtful debts	<b>7,446,339</b>	5,920,100
Allowance for inventories	<b>2,636,366</b>	1,717,569
Written off of property, plant and equipment	<b>1,906,331</b>	–
Written off of deposit for acquisition of property, plant and equipment	<b>3,773,585</b>	–
Share of results of associates	<b>658,940</b>	(4,700)
Loss on disposal of an associate	<b>3,097,889</b>	–
	<hr/>	<hr/>
Operating cash flows before movements in working capital	<b>(12,733,305)</b>	(13,353,657)
Increase in inventories	<b>(77,161)</b>	(2,115,439)
Decrease in trade receivables, prepayments, deposits and other receivables	<b>2,917,684</b>	28,183,473
Increase in loans to minority shareholders	–	(1,396,226)
Increase/(decrease) in trade and other payables	<b>557,208</b>	(3,935,637)
Increase in amounts due to directors	<b>657,337</b>	354,033
	<hr/>	<hr/>
Cash (used in)/generated from operations	<b>(8,678,237)</b>	7,736,547
Income taxes recovered/(paid)	<b>105,726</b>	(299,896)
	<hr/>	<hr/>
<b>NET CASH (USED IN)/ FROM OPERATING ACTIVITIES</b>	<b>(8,572,511)</b>	7,436,651

Consolidated Cash Flow Statement  
For the year ended 31st December 2005

	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
		(restated)
<b>INVESTING ACTIVITIES</b>		
Interest received	<b>81,934</b>	22,003
Purchase of property, plant and equipment	<b>(500,825)</b>	(3,869,922)
Proceeds on disposal of property, plant and equipment	<b>127,873</b>	–
Expenditure on development projects	<b>(1,270,973)</b>	(4,477,316)
Acquisition of a subsidiary	<b>(15,000,000)</b>	–
Increase in deposit for acquisition of subsidiaries	<b>(10,804,489)</b>	–
Increase in investment funds	<b>(8,460,414)</b>	(7,966,671)
Investment in an associate	–	(3,301,887)
	<hr/>	<hr/>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(35,826,894)</b>	(19,593,793)
	<hr/>	<hr/>
<b>FINANCING ACTIVITIES</b>		
Repayment of borrowings	<b>(978,773)</b>	(8,490,566)
Advanced from/(repayment of) a shareholder	<b>15,789,362</b>	(482,865)
Proceeds from a new bank borrowing	–	14,150,943
Interest paid	<b>(916,113)</b>	(631,050)
Proceeds from other loan	–	471,698
Proceeds from shares issuance	–	30,100,000
Share issuance expenses paid	–	(11,633,010)
Capital injection from minority shareholders to subsidiaries	–	2,575,472
	<hr/>	<hr/>
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>13,894,476</b>	26,060,622
	<hr/>	<hr/>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(30,504,929)</b>	13,903,480
	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT 1ST JANUARY</b>	<b>31,065,922</b>	17,162,442
	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT 31ST DECEMBER</b>	<b>560,993</b>	31,065,922
	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT 31ST DECEMBER, represented by</b>		
Bank balances and cash	<b>560,993</b>	31,065,922
	<hr/>	<hr/>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2005

## 1. GENERAL

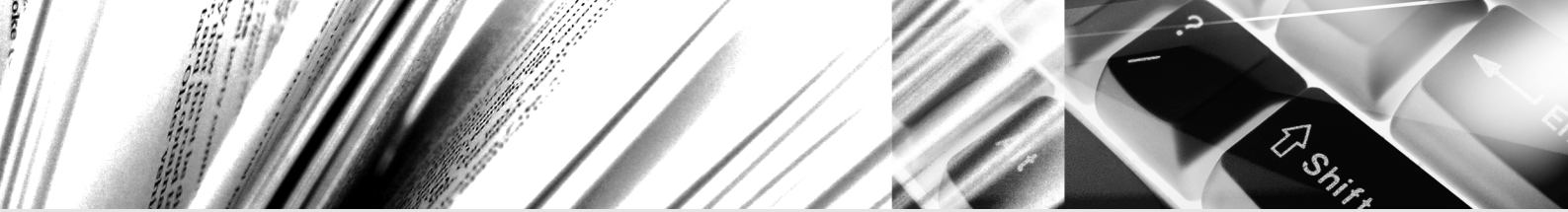
The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's registered office is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, Cayman Islands, British West Indies and, its principal place of business is located at Units 2003 and 2005, 20th floor, Great Eagle Centre, No. 23 Harbour Road, Wanchai, Hong Kong.

The consolidated financial statements are expressed in Hong Kong dollars, being the measurement currency of the Group.

The principal activity of the Group during the year is the provision of information localisation services.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Group in light of its net current liabilities of HK\$8,081,132 as at 31st December 2005. The directors are taking active steps to improve the liquidity position of the Group. Included in the consolidated balance sheet at 31st December 2005 is an overdue borrowing of HK\$13,207,547 and an accrued interest of HK\$208,612 owed to a bank, classified as current liabilities (herein collectively referred to as "Total Borrowings"). The Company is in process of negotiation with the bank for the settlement of Total Borrowings. In addition, the Company is in process of exploring income generating investments in the PRC and requesting continuing financial support from its controlling shareholders. Provided that the repayment arrangement for the Total Borrowings can be agreed upon and provided that income generating investments are injected into the Group and that continuing financial support from controlling shareholders can be obtained, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.



### 3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1st January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

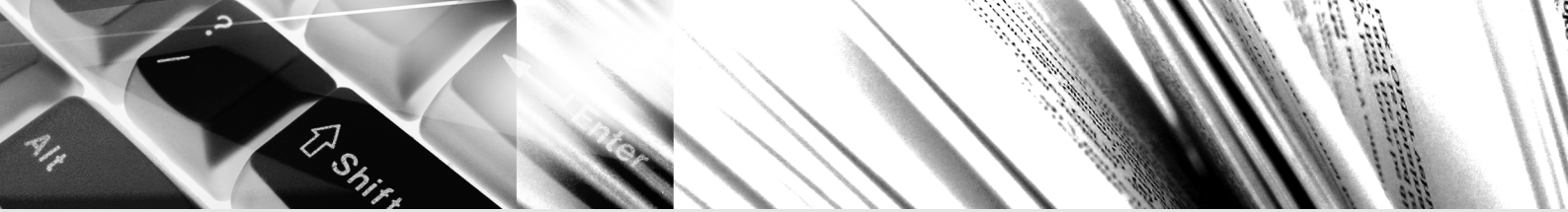
#### **Business Combinations**

In the current year, the Group has applied HKFRS 3 *Business Combinations* which is effective for business combinations for which the agreement date is on or after 1st January 2005. Goodwill arising on acquisitions after 1st January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition.

#### **Share-based Payments**

In the current year, the Group has applied HKFRS 2 *Share-based Payment* which requires an expenses to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares (“equity-settled transactions”), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (“cash-settled transactions”). The principal impact of HKFRS 2 on the Group, is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. The Group has applied HKFRS 2 to share options that were granted on or after 1st January 2005. No share options had been granted by the Group prior to 1st January 2005.





**3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES** *(Continued)*

**Financial Instruments**

In the current year, the Group has applied HKAS 32 *Financial Instruments: Disclosure and Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement*. HKAS 32 requires retrospective application and HKAS 39, which is effective for accounting periods beginning on or after 1st January 2005, generally does not permit the recognition, derecognition or measure financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact or how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

*Classification and measurement of financial assets and financial liabilities*

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

*Financial assets and financial liabilities other than debt and equity securities*

From 1st January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The Group has applied the relevant transitional provisions in HKAS 39. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

#### 4. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

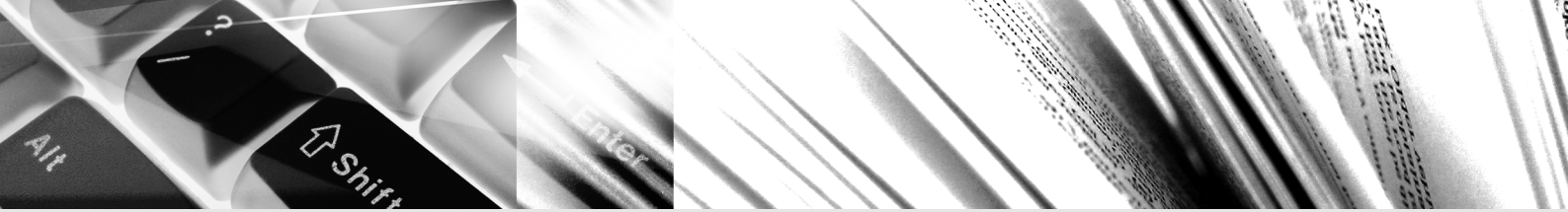
The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Decrease in share of results of associates	–	(902)
Decrease in income tax expenses	–	902
Recognition of share-based payments as expenses	<b>(3,281,740)</b>	–
Non-amortisation of goodwill	<b>969,735</b>	–
Non-amortisation of goodwill of an associate	<b>339,305</b>	–
	<hr/>	<hr/>
Effects in loss for the year	<b><u>(1,972,700)</u></b>	<u>–</u>

The cumulative effects of the application of the new HKFRSs on 31st December 2004 and 1st January 2005 are summarised below:

	<b>As at</b>	<b>Retrospective</b>	<b>As at</b>
	<b>31/12/2004</b>	<b>Adjustments</b>	<b>31/12/2004 &amp;</b>
	<b>(originally stated)</b>	<b>HK\$</b>	<b>1/1/2005</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
		HKAS 1	
Minority interests	–	2,087,472	2,087,472
	<hr/>	<hr/>	<hr/>
Total effects on equity	–	2,087,472	2,087,472
	<hr/>	<hr/>	<hr/>
Minority interests	2,087,472	(2,087,472)	–
	<hr/>	<hr/>	<hr/>

Note: The application of the new HKFRSs has no effect on the Group's equity on 1st January 2004.



#### 4. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (Continued)

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no or any material impact on the financial statements of the Group.

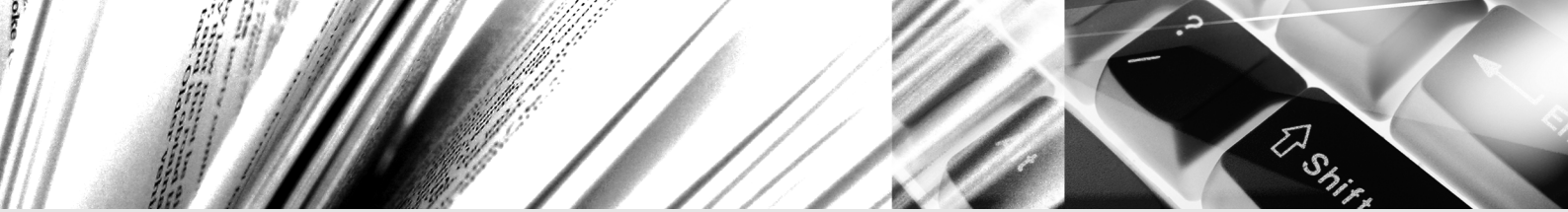
HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures <sup>2</sup>
HKAS 21 (Amendment)	Net Investment in a Foreign Operation <sup>2</sup>
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions <sup>2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

<sup>1</sup> Effective for annual periods beginning on or after 1st January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1st January 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1st December 2005.

<sup>4</sup> Effective for annual periods beginning on or after 1st March 2006.



## **5. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared on the historical cost basis. The consolidated financial statements have been prepared in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

### **(a) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

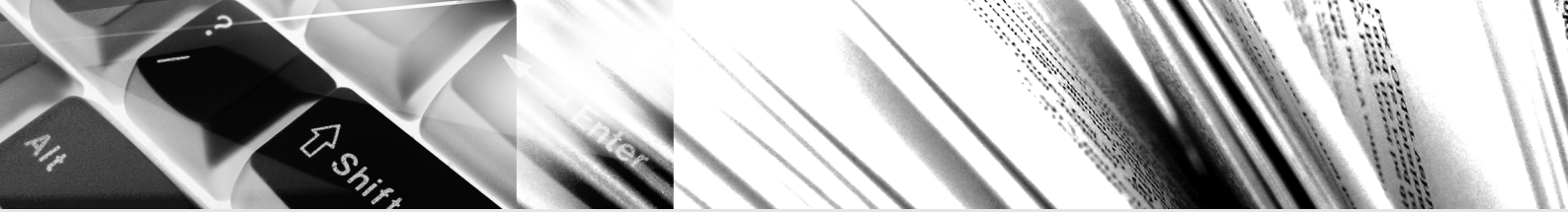
Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

### **(b) Goodwill**

Goodwill arising on an acquisition of a subsidiary or an associate for which the agreement date is on or after 1st January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary or associate at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.



**5. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**(b) Goodwill** *(Continued)*

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet. Capitalised goodwill arising on an acquisition of an associate (which is accounted for using the equity method) is included in the cost of the investment of the relevant associate.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary or an associate, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

**(c) Interests in associates**

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

**5. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**(d) Property, plant and equipment**

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimate residual value, using the straight-line method, at the following rates per annum:

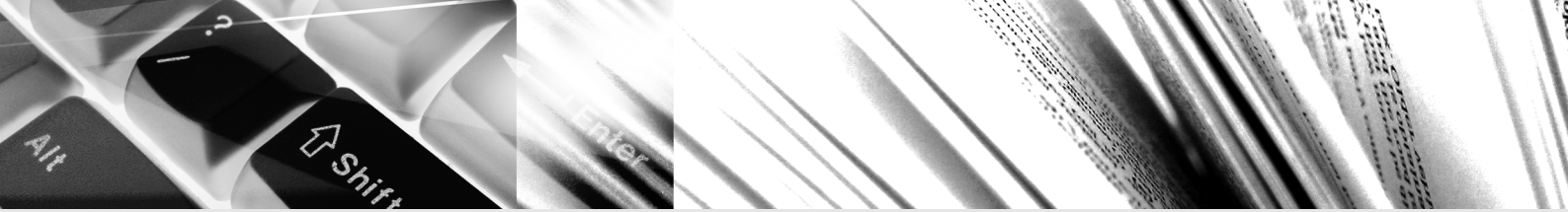
Computer and other equipment	4 – 5 years
Furniture and fixtures	3 years
Motor vehicles	8 years
Leasehold improvements	Over the shorter of 5 years or the unexpired terms of the leases.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

**(e) Intangible assets**

On initial recognition, intangible assets acquired separately are recognised at cost. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognised.



**5. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**(e) Intangible assets** *(Continued)*

*Research and development expenditures*

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less accumulated amortisation and any accumulated impairment losses.

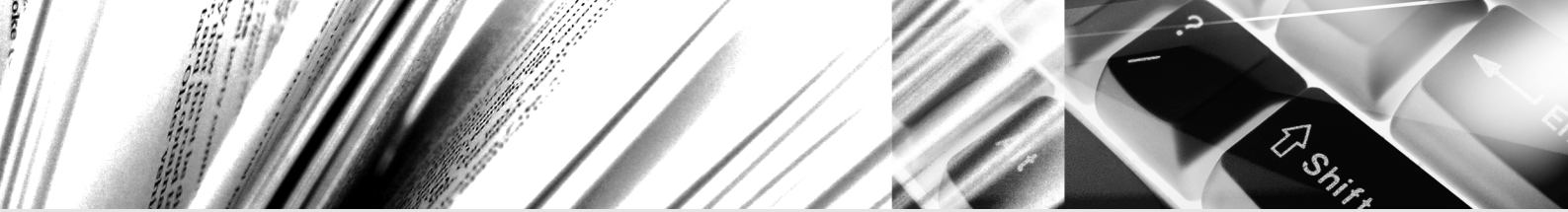
Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the year in which it is incurred.

*Impairment*

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).



**5. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**(f) Financial instruments**

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

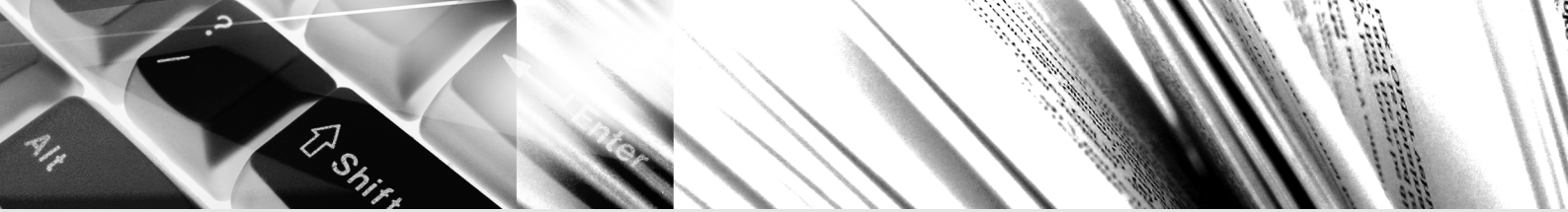
*Financial assets*

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.





**5. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**(f) Financial instruments** (Continued)

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, deposits and loan receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Financial liabilities and equity*

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

*Other financial liabilities*

Other financial liabilities including trade and other payables, loan from a shareholder and borrowings are subsequently measured at amortised cost, using the effective interest rate method.

*Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.



**5. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**(g) Inventories**

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

**(h) Revenue recognition**

*(i) Sales of goods*

Sales of goods are recognised when goods are delivered and title has passed.

*(ii) Provision of information localisation services*

Revenue from the provision of information localisation services are recognised when the services are rendered.

*(iii) Licensing fee*

Licensing fee is recognised upon the issuance of authorisation letter to the customers pursuant to which the customers are granted the right to make an agreed number of copies of the patented software.

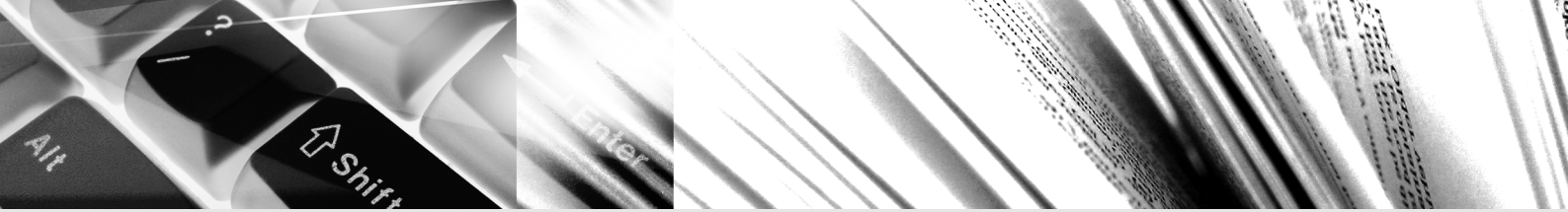
*(iv) Custom-made solutions*

When the outcome of a custom-made solution contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract.

When the outcome of a custom-made solution contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

*(v) Interest income*

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.



**5. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**(i) Retirement benefit costs**

Payments to state-managed retirement benefit scheme and Mandatory Provident Fund Scheme are charged as an expense as they fall due.

**(j) Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

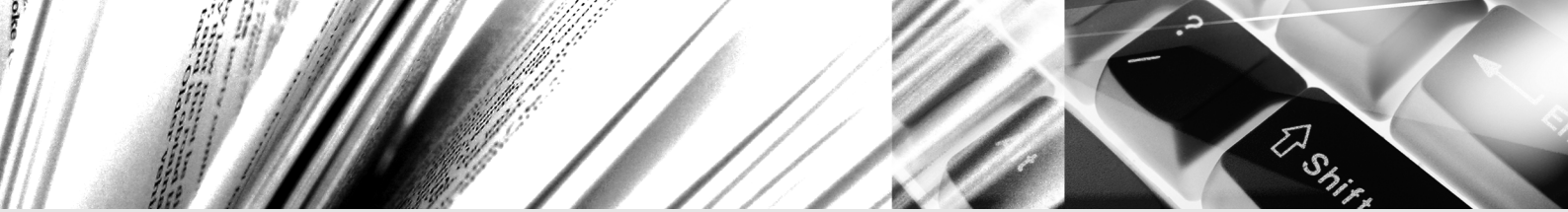
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.



**5. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**(k) Foreign currencies**

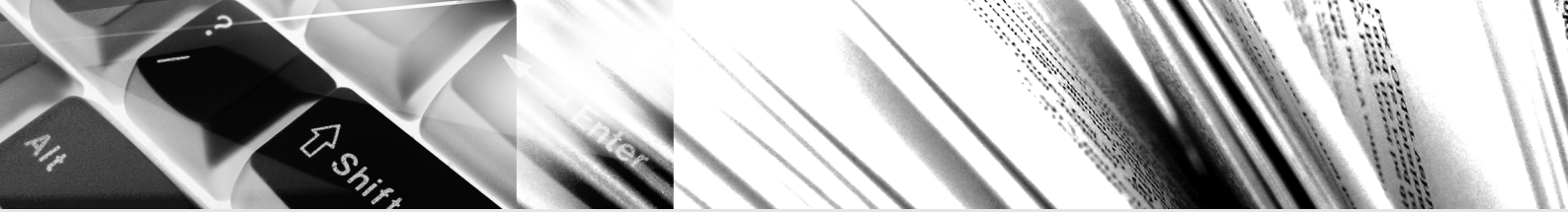
In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operating is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1st January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Goodwill and fair value adjustments arising on acquisitions of foreign operations prior to 1st January 2005 are treated as non-monetary foreign currency items of the acquirer and reported using the historical exchange rate prevailing at the date of the acquisition.



**5. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**(l) Leasing**

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

**(m) Shared-based payment transactions**

Equity-settled share-based payment transactions

*Share options granted to directors, employees, consultants and other eligible participants of the Company*

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in share based payment reserve.

At the time when the share options are exercised, the amount previously recognised in share-based payment reserve will be transferred to share premium. When the share based payments are forfeited or are still not exercised at the expiry date, the amount previously recognised in share-based payment reserve will be transferred to accumulated losses.

**(n) Impairment losses (other than goodwill)**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately unless the relevant asset is carried at a revalued amount under another standard in which case the impairment loss is treated as a revaluation decrease under that standard.



**5. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**(n) Impairment losses (other than goodwill)** *(Continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

**6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the process of applying the entity's accounting policies which are described in note 5, management has made the following judgments that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

**Depreciation of property, plant and equipment**

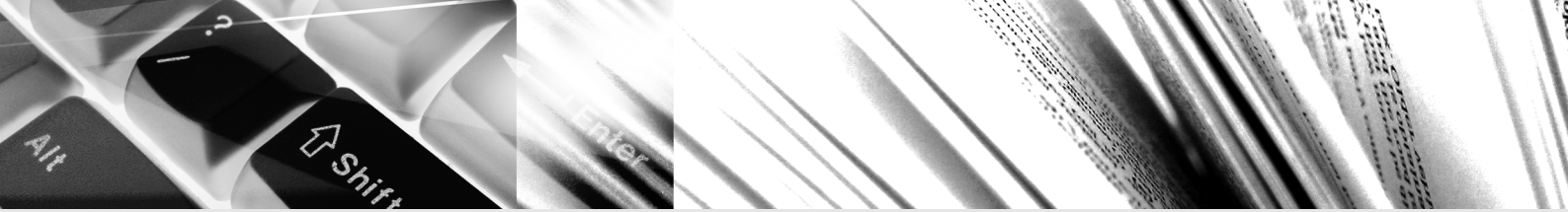
Property, plant and equipment are depreciated on a straight line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

**Amortisation of intangible assets**

Intangible assets are amortised on a straight-line basis over their estimated useful lives. The determination of the useful lives involve management's estimation. The Group re-assesses the useful life of the intangible assets and if the expectation differs from the original estimate, such a difference may impact the amortisation in the year and the estimate will be changed in the future period.

**Estimated impairment of intangible assets (excluding goodwill)**

The Group evaluates whether intangible assets (excluding goodwill) have suffered any impairment whenever events or changes in circumstances indicated that the carrying amount of the assets may not be recoverable, in accordance with the accounting policy stated in Note 5(e). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.



**6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**  
(Continued)

**Allowance for bad and doubtful debts**

The Group performs ongoing credit evaluations of its customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that its has been identified. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses.

**Allowance for inventories**

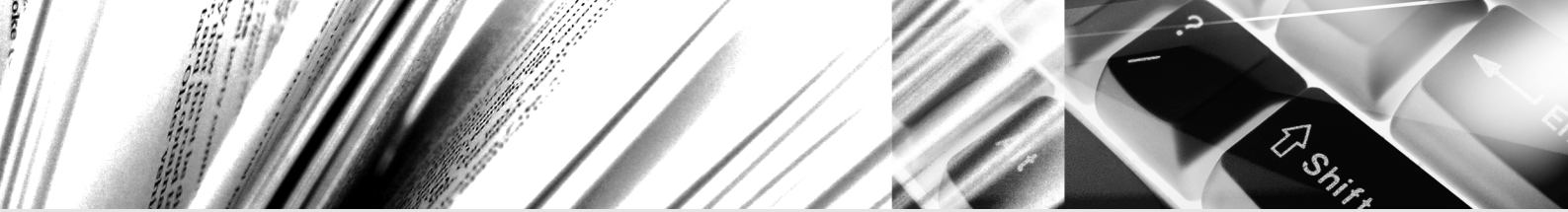
The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

**Estimated impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31st December 2005, the carrying amount of goodwill is HK\$9,697,350. Details of impairment testing on goodwill are set out in note 21.

**7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's major financial instruments include trade receivables, other receivables, investment funds, deposit for acquisition of subsidiaries, trade and other payables and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.



**7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** *(Continued)*

**Liquidity risk**

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due.

At 31st December 2005, the Group had net current liabilities of approximately HK\$8.1 million, overdue bank borrowings of approximately HK\$13.2 million and cash and cash equivalents of only approximately HK\$561,000. Notwithstanding these, the directors consider that with the continuous financial support of the Group's bankers and shareholders and the attainment of profitable and positive cash flow investments in the PRC, the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. The validity of which depends upon the future funding being available.

**Credit risk**

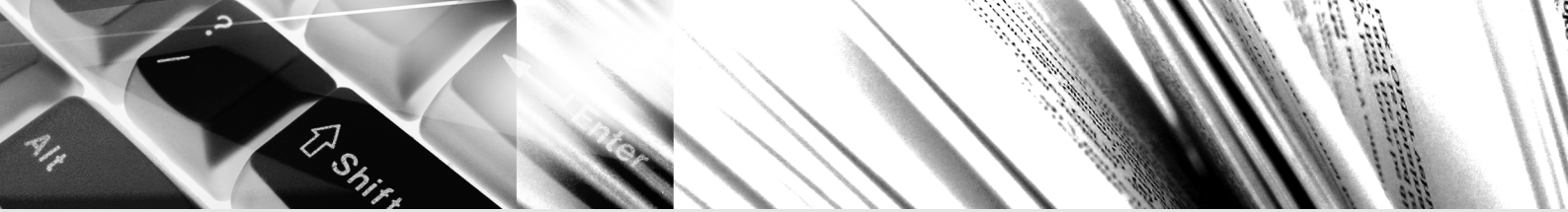
The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

**Interest rate risk**

The Group's fair value interest rate risk relates primarily to fixed rate bank borrowings.





## 8. REVENUE AND OTHER OPERATING INCOME

Revenue represents the revenue from the provision of information localisation services and custom-made solution contracts and the sales value of goods sold after allowances for goods returned, excludes value added or other sales taxes and is after the deduction of any trade discounts.

	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
		(restated)
Revenue		
Information localisation services	<b>3,758,594</b>	8,661,921
General software	<b>4,995</b>	2,946,951
Custom-made solutions	–	1,317,587
Licensing fee	–	1,022,758
	<b>3,763,589</b>	13,949,217
Other operating income		
Interest income	<b>81,934</b>	22,003
Value added tax (“VAT”) refund ( <i>note</i> )	–	1,044,762
Other income	<b>64,372</b>	47,873
	<b>146,306</b>	1,114,638

*Note:* Pursuant to the relevant approval document issued by the tax authorities in Beijing, a subsidiary of the Group is entitled to a refund of VAT on the sales of self developed software. The VAT refund represents the amount of VAT paid in excess of 3% of income generated from the sale of self-developed software. The amount of VAT refund is calculated on a monthly basis and recognised as other revenue when the refund is approved by the relevant tax authorities.



## 9. SEGMENT REPORTING

During the year ended 31st December 2005, the Group is principally engaged in the provision of information localisation services. Business segmental information for the Group for the year ended 31st December 2005 and 2004 are shown as below.

As the Group mainly operates in the PRC, no geographical segment information is presented.

### **Business segments**

(i) *Information localisation services*

To provide translation and information localisation services.

(ii) *General software*

The development and sale of a range of self developed standardised software products.

(iii) *Customer-made solutions*

To develop and implement custom-made solutions which are specifically designed and developed for the specific needs and requirements of a particular customer.

(iv) *Licensing fee*

To grant the right to the customers for making an agreed number of copies of the patented software.

Notes to the Financial Statements  
For the year ended 31st December 2005

9. SEGMENT REPORTING (Continued)

Business segments

For the year ended 31st December 2005

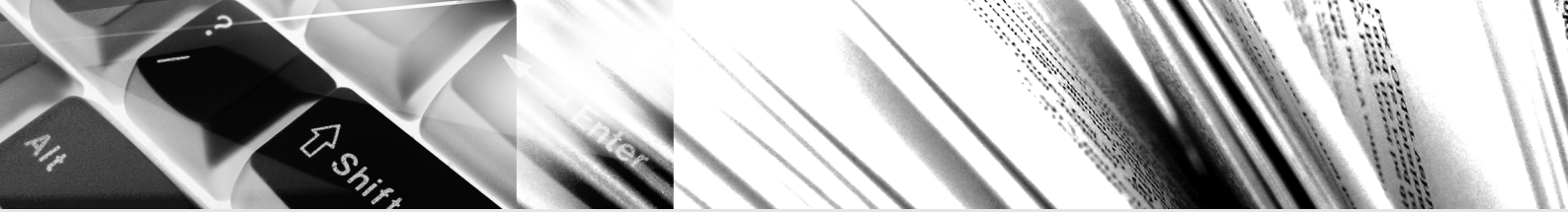
	Information localisation services HK\$	General software HK\$	Custom- made solutions HK\$	Licensing fee HK\$	Inter- segment elimination HK\$	Consolidated HK\$
Revenue from external customers	3,758,594	4,995	-	-	-	3,763,589
Segment result	(9,914,670)	(12,366,503)	-	-	-	(22,281,173)
Unallocated operating income and expenses						(12,290,506)
Finance costs						(1,124,725)
Share of results of associates						(658,940)
Loss on disposal of an associate						(3,097,889)
Loss before tax						(39,453,233)
Income tax expenses						(5,722)
Loss for the year						(39,458,955)
Depreciation and amortisation	2,391,358	-	-	-	-	
Impairment loss on intangible assets	-	437,614	-	-	-	
Allowance for bad and doubtful debts	-	3,565,632	-	-	-	
Allowance for inventories	-	2,636,366	-	-	-	
Loss on disposal of property, plant and equipment	-	46,975	-	-	-	
Written off of property, plant and equipment	-	1,906,331	-	-	-	
Written off of deposit for acquisition of property, plant and equipment	-	3,773,585	-	-	-	
Capital expenditure	500,825	-	-	-	-	
At 31st December 2005						
Segment assets	8,563,571	-	-	-	-	8,563,571
Unallocated corporate assets						43,084,182
Consolidated total assets						51,647,753
Segment liabilities	2,851,857	-	-	-	-	2,851,857
Unallocated liabilities						36,469,547
Consolidated total liabilities						39,321,404

9. SEGMENT REPORTING (Continued)

Business segments (Continued)

For the year ended 31st December 2004

	Information localisation services HK\$	General software HK\$	Custom- made solutions HK\$	Licensing fee HK\$	Inter- segment elimination HK\$	Consolidated HK\$ (restated)
Revenue from external customers	<u>8,661,921</u>	<u>2,946,951</u>	<u>1,317,587</u>	<u>1,022,758</u>	–	<u>13,949,217</u>
Segment result	<u>(3,942,439)</u>	<u>(12,118,910)</u>	<u>(927,264)</u>	<u>372,384</u>	–	(16,616,229)
Unallocated operating income and expenses						(8,740,773)
Finance costs						(631,050)
Share of result of an associate						<u>4,700</u>
Loss before tax						(25,983,352)
Income tax expenses						<u>(373)</u>
Loss for the year						<u>(25,983,725)</u>
Depreciation and amortisation	678,000	2,495,197	–	–		
Impairment loss on intangible assets	–	1,214,482	–	–		
Allowance for bad and doubtful debts and inventories	<u>141,509</u>	<u>4,483,667</u>	<u>2,832,939</u>	<u>179,554</u>		
Capital expenditure	<u>2,235,442</u>	–	–	–		
At 31st December 2004						
Segment assets	7,001,216	9,115,082	–	145,789	–	16,262,087
Unallocated corporate assets						<u>55,329,135</u>
Consolidated total assets						<u>71,591,222</u>
Segment liabilities	1,127,826	749,491	43,867	34,051	–	1,955,235
Unallocated liabilities						<u>21,132,423</u>
Consolidated total liabilities						<u>23,087,658</u>



Notes to the Financial Statements  
For the year ended 31st December 2005

**10. RESEARCH AND DEVELOPMENT COSTS**

	<b>2005</b>	2004
	<i>HK\$</i>	<i>HK\$</i>
Staff costs	<b>651,179</b>	1,292,721
Rental expenses	<b>576,531</b>	949,153
Others	<b>43,263</b>	–
Software acquired for development	–	2,235,442
	<hr/>	<hr/>
	<b>1,270,973</b>	4,477,316
Less: Amount capitalised (Note 19)	<b>(1,270,973)</b>	(4,477,316)
	<hr/>	<hr/>
	–	–
Add: Amortisation of intangible assets	<b>1,160,580</b>	2,202,037
Impairment of intangible assets	<b>437,614</b>	1,214,482
	<hr/>	<hr/>
	<b>1,598,194</b>	3,416,519
	<hr/>	<hr/>

**11. FINANCE COSTS**

	<b>2005</b>	2004
	<i>HK\$</i>	<i>HK\$</i>
Interest on bank borrowings wholly repayable within five years	<b>1,124,725</b>	631,050
	<hr/>	<hr/>

**12. LOSS BEFORE TAX**

	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Loss before tax has been arrived at after charging:–		
Auditors' remuneration		
– current year	<b>325,472</b>	750,000
– over-provision in prior year	<b>(48,150)</b>	–
Staff costs, including directors' remuneration (Note 14)		
Salaries, wages and allowances	<b>5,114,953</b>	7,469,649
Share-based payments	<b>2,034,230</b>	–
Contributions to retirement benefits schemes (Note 31)	<b>396,443</b>	281,016
	<b>7,545,626</b>	7,750,665
Cost of inventories	–	4,511,358
Depreciation of property, plant and equipment	<b>1,230,778</b>	971,160
Amortisation of intangible assets	<b>1,160,580</b>	2,202,037
Impairment of intangible assets	<b>437,614</b>	1,214,482
Allowance for inventories	<b>2,636,366</b>	1,717,569
Loss on disposal of property, plant and equipment	<b>46,975</b>	–
Loss on disposal of an associate	<b>3,097,889</b>	–
Written off of property, plant and equipment	<b>1,906,331</b>	–
Written off of deposit for acquisition of property, plant and equipment (Included in other receivables)	<b>3,773,585</b>	–
Operating lease charges in respect of properties	<b>1,487,954</b>	3,176,183
Allowance for bad and doubtful debts	<b>7,446,339</b>	5,920,100
Net exchange loss	<b>13,736</b>	2,183
Share of tax of associates included in share of results of associates	–	902
Share-based payments	<b>1,247,510</b>	–

### 13. INCOME TAX EXPENSES

- (a) The amount of tax charged to the consolidated income statement represents:

	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Enterprise income tax in the PRC		
– current year	<u><b>5,722</b></u>	<u>373</u>

No provision has been made for Hong Kong Profits Tax as the Group did not earn income subject to Hong Kong Profits Tax during the years ended 31st December 2005 and 2004.

The PRC Enterprise income tax of the Group represents the provisions for the PRC income tax on profits of subsidiaries operating in the PRC which have been calculated at the prevailing income tax rates ranging from 7.5% to 33% under the relevant PRC income tax rules and regulations applicable to the subsidiaries.

As foreign investment enterprises in the PRC, two subsidiaries of the Company are granted certain tax relief, under which they are entitled to income tax exemption for first three profit making years and to a 50% relief for PRC income tax to the following three years, after which the subsidiaries' profits are subject to PRC income tax at the rate of 15%.

- (b) The tax charge for the year can be reconciled to the loss per the income statement as follows:

	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Loss before tax	<u><b>(39,453,233)</b></u>	<u>(25,983,352)</u>
Notional tax on loss before tax, calculated at the rates applicable to profits in the PRC	<b>(3,341,651)</b>	(2,176,139)
Tax effect of expenses not deductible for tax purposes	<b>2,008,135</b>	1,418,474
Tax effect of income not subject to tax	–	(78,777)
Tax effect of unrecognised tax losses	<u><b>1,339,238</b></u>	<u>836,815</u>
Tax charges	<u><b>5,722</b></u>	<u>373</u>

- (c) The Group has not recognised deferred tax assets in respect of tax losses of HK\$15,596,180 (2004: HK\$4,923,223) as it is not certain that future taxable profits will be available against which the asset can be utilised. The tax losses can be used to make good of subsequent years' profits and will expire in five years from the year the tax losses were resulted under the current tax legislation.

#### 14. DIRECTORS' REMUNERATION

The remuneration paid or payable to each of the 14 (2004: 12) directors were as follows:

2005	Fees HK\$	Salaries and other emoluments HK\$	Share- based payments HK\$	Contribution to retirement benefits scheme HK\$	Total HK\$
<i>Executive Directors</i>					
Sze Wai, Marco	–	240,000	169,950	12,000	421,950
He En Pei	–	280,000	545,534	12,000	837,534
Chu Chi Shing (note 2)	–	90,000	–	4,500	94,500
Shang Guan Bu Yan	–	120,000	113,300	6,000	239,300
Chen Si Gen	–	180,000	113,300	9,000	302,300
Wang Hui Bo (note 2)	–	135,000	–	6,750	141,750
He Zhan Tao (note 2)	–	180,000	61,050	9,000	250,050
Chen Cheng Ping (note 1)	–	10,000	–	500	10,500
Tan Shu Jiang (note 3)	–	20,000	–	1,000	21,000
<i>Independent Non-Executive Directors</i>					
Wang Tian Ye	120,000	–	22,660	–	142,660
Wang Bin (note 5)	66,000	–	–	–	66,000
Xu Shi Hong (note 5)	66,000	–	–	–	66,000
Song Jing Sheng (note 4)	54,333	–	–	–	54,333
Ho Chen-yu (note 6)	72,936	–	–	–	72,936
	<b>379,269</b>	<b>1,255,000</b>	<b>1,025,794</b>	<b>60,750</b>	<b>2,720,813</b>

Notes:

1. Resigned on 4th February 2005
2. Resigned on 1st October 2005
3. Appointed on 1st November 2005
4. Resigned on 13th June 2005
5. Appointed on 13th June 2005
6. Retired on 6th May 2005



**14. DIRECTORS' REMUNERATION** (Continued)

2004	Fees HK\$	Salaries and other emoluments HK\$	Contribution to retirement benefits scheme HK\$	Total HK\$
<i>Executive Directors</i>				
Sze Wai, Marco	–	240,000	12,000	252,000
He En Pei	–	287,974	12,142	300,116
Chu Chi Shing	–	120,000	6,000	126,000
Shang Guan Bu Yan	–	120,000	6,000	126,000
Chen Si Gen	–	180,000	9,000	189,000
Wang Hui Bo	–	180,000	9,000	189,000
He Zhan Tao	–	247,955	12,142	260,097
Chen Cheng Ping	–	120,000	6,000	126,000
<i>Independent Non-Executive Directors</i>				
Wang Tian Ye	120,000	–	–	120,000
Song Jing Sheng	120,000	–	–	120,000
Chiu Chi Shun, Clarence (note 1)	102,257	–	4,614	106,871
Ho Chen-yu (note 2)	30,000	–	6,500	36,500
	<u>372,257</u>	<u>1,495,929</u>	<u>83,398</u>	<u>1,951,584</u>

Notes:

1. Resigned on 8th October 2004
2. Appointed on 28th September 2004

No emoluments were paid by the Group to the directors or any of the five highest paid individuals (note 15) as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived any emoluments in the two years ended 31st December 2005 and 2004.

## 15. EMPLOYEES EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, 4 (2004: 4) are directors whose emoluments are disclosed in note 14. The aggregate of the emolument in respect of the other individual for the years ended 31st December 2005 and 2004 are as follows:

	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Salaries and other emoluments	<b>224,877</b>	264,000
Contributions to retirement benefits scheme	<b>9,000</b>	12,200
	<b><u>233,877</u></b>	<u>276,200</u>

The emoluments were within the following band:

	<b>Number of employee</b>	
	<b>2005</b>	2004
Nil – HK\$1,000,000	<b><u>1</u></b>	<u>1</u>

## 16. DIVIDEND

No dividend was paid or proposed during the two years ended 31st December 2005 and 2004 nor has any dividend been proposed since the balance sheet date.

## 17. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to equity holders of the parent of HK\$38,371,804 (2004: HK\$25,495,725) and the weighted average of 200,000,000 (2004: 198,849,315) shares in issue during the year.

No diluted loss per share amounts have been presented for the two years ended 31st December 2005 and 2004 as there was no diluting events existed during those years.

Notes to the Financial Statements  
For the year ended 31st December 2005

**18. PROPERTY, PLANT AND EQUIPMENT**

	<b>Computer and other equipment</b>	<b>Furniture and fixtures</b>	<b>Motor vehicles</b>	<b>Leasehold improvements</b>	<b>Total</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>COST</b>					
At 1st January 2004	2,504,052	493,609	929,399	–	3,927,060
Additions	1,078,487	829,466	–	1,961,969	3,869,922
At 31st December 2004	3,582,539	1,323,075	929,399	1,961,969	7,796,982
Additions	123,467	–	–	377,358	500,825
Disposals/written off	(1,529,797)	(184,779)	(143,159)	(1,856,714)	(3,714,449)
<b>At 31st December 2005</b>	<b>2,176,209</b>	<b>1,138,296</b>	<b>786,240</b>	<b>482,613</b>	<b>4,583,358</b>
<b>ACCUMULATED DEPRECIATION</b>					
At 1st January 2004	1,664,628	392,684	342,908	–	2,400,220
Charge for the year	401,097	202,724	110,412	256,927	971,160
At 31st December 2004	2,065,725	595,408	453,320	256,927	3,371,380
Charge for the year	480,359	266,572	110,412	373,435	1,230,778
Eliminated on disposals/ written off	(881,927)	(112,432)	(102,044)	(536,867)	(1,633,270)
<b>At 31st December 2005</b>	<b>1,664,157</b>	<b>749,548</b>	<b>461,688</b>	<b>93,495</b>	<b>2,968,888</b>
<b>NET BOOK VALUE</b>					
<b>At 31st December 2005</b>	<b>512,052</b>	<b>388,748</b>	<b>324,552</b>	<b>389,118</b>	<b>1,614,470</b>
At 31st December 2004	1,516,814	727,667	476,079	1,705,042	4,425,602

**19. INTANGIBLE ASSETS**

	<i>HK\$</i>
<b>COST</b>	
At 1st January 2004	7,217,949
Additions	4,477,316
	<hr/>
At 31st December 2004	11,695,265
Additions	1,270,973
	<hr/>
<b>At 31st December 2005</b>	<b>12,966,238</b>
	<hr style="border-top: 1px dashed black;"/>
<b>ACCUMULATED AMORTISATION / IMPAIRMENT</b>	
At 1st January 2004	3,704,372
Charge for the year	2,202,037
Impairment loss	1,214,482
	<hr/>
At 31st December 2004	7,120,891
Charge for the year	1,160,580
Impairment loss	437,614
	<hr/>
<b>At 31st December 2005</b>	<b>8,719,085</b>
	<hr style="border-top: 1px dashed black;"/>
<b>NET BOOK VALUE</b>	
<b>At 31st December 2005</b>	<b>4,247,153</b>
	<hr style="border-top: 1px solid black;"/>
At 31st December 2004	4,574,374
	<hr style="border-top: 1px solid black;"/>

Intangible assets comprise computer software development costs. The intangible assets have definite useful lives and amortised on a straight line basis over five years.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software.

Owing to the unsatisfactory sales records on certain computer software, the directors have performed an assessment on the recoverable amount of the development costs previously capitalised for these computer software. Based on this assessment, the directors consider that it is unlikely that these development costs have any future value in use and hence the carrying amount of these development costs in the amount of HK\$437,614 (2004: HK\$1,214,482) were fully impaired.

Notes to the Financial Statements  
For the year ended 31st December 2005

**20. INTEREST IN AN ASSOCIATE**

	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Cost of investment in an unlisted associate	<b>5,298,750</b>	3,301,887
Share of post acquisition (loss)/profit	<b>(450,242)</b>	4,700
	<b><u>4,848,508</u></b>	<u>3,306,587</u>

As at 31st December 2005, the Group had interest in the following associate:

Name of associate	Form of business	Class of shares held	Place of incorporation/operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
					Group's effective interest	held by the Company	held by subsidiary	
Beijing Advanced Information Storage Technology Co., Ltd. ("Beijing AIS") 北京愛思拓信息存儲技術有限公司	Incorporated	Contributed capital	PRC	RMB12,500,000	45%	–	45%	Development and sales of jukebox and the provision of data storage services

Included in the cost of investment in an associate is goodwill of HK\$3,393,054 (2004: Nil) arising on acquisition of the associate during the year. The movement of goodwill is set out below.

	<i>HK\$</i>
COST AND CARRYING VALUE	
Arising on acquisition of an associate during the year	3,393,054
<b>At 31st December 2005</b>	<b><u>3,393,054</u></b>

**20. INTEREST IN AN ASSOCIATE** (Continued)

The directors are of the opinion that the recoverable amount of the goodwill arising from the acquisition of an associate exceeds its carrying amount and no impairment loss is necessary.

The summarised financial information in respect of the Group's associate is set out below:

	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Total assets	<b>6,711,403</b>	10,561,520
Total liabilities	<b>(3,477,060)</b>	(1,114,126)
Net assets	<b>3,234,343</b>	9,447,394
Group's share of net assets of an associate	<b>1,455,454</b>	3,306,587
Revenue	<b>1,144,334</b>	3,550,794
(Loss)/profit for the year	<b>(2,387,142)</b>	13,431
Group's share of result of an associate for the year	<b>(450,242)</b>	4,700

The Group disposed of its entire 35% equity interest in Beijing Polypegasus and Technology Co., Ltd. in December 2005 for nil consideration. Loss attributed to this disposal amounted to HK\$3,097,889. For the year ended 31st December 2005, the Group shared loss from this former associate amounted to HK\$208,698 up to the disposal date.

**21. GOODWILL**

	HK\$
COST AND CARRYING VALUE	
Arising on acquisition of a subsidiary (see Note 34)	9,697,350
At 31st December 2005	9,697,350

**21. GOODWILL** (Continued)

**Impairment testing on goodwill**

For the purposes of impairment testing, goodwill have been arising from the acquisition of a subsidiary, New Champion International Limited ("New Champion"). New Champion is an investment vehicle holding 45% interests in Beijing AIS. Other than holding the 45% interests in Beijing AIS, New Champion does not have any business and own any material assets. Beijing AIS is principally engaged in the development and sale of Jukebox in the PRC.

During the year ended 31st December 2005, the management of the Group prepared profit forecast and cash flow forecast ("the Forecast") in respect of Beijing AIS. The cash flow forecast based on financial budgets approved by management covering a period of 8 years period and discount rate of 4.5%. Cash flow forecast during the budget period are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on the management's expectation for the market development and the management believe that the gross margins are reasonable. The directors are of the opinion, based on the Forecast, that the recoverable amounts of the goodwill with indefinite useful lives exceed their carrying amount in the consolidated balance sheet and no impairment loss is necessary.

**22. INVENTORIES**

	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Finished goods		
– general software held on consignment	–	2,559,205
	<u>                    </u>	<u>                    </u>

**23. TRADE RECEIVABLES**

	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Net trade receivables	<b>416,900</b>	8,338,684
	<u>                    </u>	<u>                    </u>

Debts are due for payment at the date of billing. Credit term granted by the Group to customers is generally between one to six months. Subject to negotiation, extended credit terms are available for certain major customers with well-established trading records.

**23. TRADE RECEIVABLES** (Continued)

An aged analysis of the trade receivables (net of allowance for bad and doubtful debts) as at the balance sheet date are as follows:

	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Within 1 month	<b>11,707</b>	922,084
Aged over 1 month but less than 4 months	<b>33,561</b>	191,552
Aged over 4 months but less than 8 months	<b>64,835</b>	1,048,655
Aged over 8 months but less than 1 year	<b>306,797</b>	3,536,387
Aged over 1 year	–	2,640,006
	<hr/> <b>416,900</b> <hr/>	<hr/> 8,338,684 <hr/>

The fair value of the Group's trade receivables at 31st December 2005 was approximate to the corresponding carrying amount.

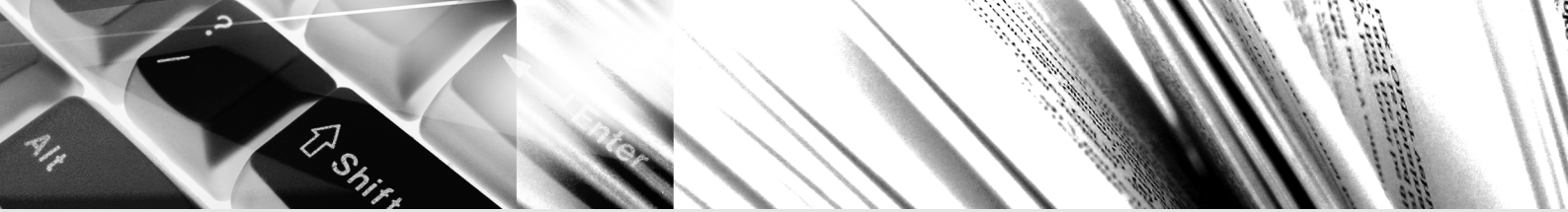
**24. INVESTMENT FUNDS**

Pursuant to an agreement dated 1st June 2004, a subsidiary of the Group entered into an agreement with 北京盛邦投資有限公司 (“盛邦”), an independent PRC company, for a term of one year for the provision of advisory service on capital investment and expired during the year on 30th June 2005. As at 31st December 2004, a total of HK\$7,966,671 was placed with 盛邦 and recorded as investment funds.

On 30th June 2005, a subsidiary of the Group entered into a supplementary agreement to extend the provision of advisory service on capital investment for a further year and expiring on 30th June 2006. During the year, the Group paid further deposits to 盛邦 of HK\$8,460,414 with an aggregate amount of HK\$16,427,085 held by 盛邦 as at 31st December 2005.

The directors are of the opinion that the carrying amount of the investment funds is approximate to its fair value.





## **25. DEPOSIT FOR ACQUISITION OF SUBSIDIARIES**

On 28th December 2004, the Group entered into a revised letter of intent with an independent third party to acquire the entire interest in Mighty Wish Services Limited ("Mighty Wish") and Shanghai Ruijin Translation Company Limited ("Translation Company"). As at 31st December 2004, the Group has paid HK\$1,905,660 and was retained as a deposit for the acquisition (the "Deposit").

On 30th March 2005, the Group entered into an equity transfer agreement with Mighty Wish and the independent third party (the "Equity Transfer Agreement"). Pursuant to the Equity Transfer Agreement, the Group agreed to acquire the entire equity interest in both Mighty Wish and Translation Company at a consideration of HK\$19,500,000 subject to the conditions that the Translation Company has been reorganised as a wholly owned subsidiary of Mighty Wish or with prior written consent of the Group, under the PRC laws and regulations that the Translation Company has been legally and validly converted into a wholly owned foreign enterprise within 90 days after the execution of the Equity Transfer Agreement. The Equity Transfer Agreement shall be terminated forthwith in the event that if the condition set above is not fulfilled within 90 days after the execution of the Equity Transfer Agreement. The independent third party shall return the entire amount of the Deposit (without interest) to the Group.

On 28th June 2005, the Group, the independent third party and Mighty Wish entered into a supplementary agreement to the Equity Transfer Agreement ("Supplemental Agreement") pursuant to which the long stop date for the fulfillment of such condition precedent to the completion of the Acquisition was extended from 90 days to 180 days after the execution of the Equity Transfer Agreement.

As at 31st December 2005, the Group has paid an aggregate amount of HK\$12,710,149 which was retained as a deposit for the acquisition of the subsidiaries. The transactions have not yet completed and the long stop date was expired as at the balance sheet date. However, the Company's directors remained confident that the transactions will be completed and the entire deposit will be converted into investment costs in subsidiaries.

**26. LOANS TO MINORITY SHAREHOLDERS**

	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Loans to minority shareholders	<b>1,396,226</b>	1,396,226
Less: Allowance for bad and doubtful debts	<b>(1,396,226)</b>	–
	<u>–</u>	<u>1,396,226</u>

As at 31st December 2004, loans to minority shareholders are unsecured, bearing interest at 3% per annum and were repayable before 31st December 2005. The amounts were overdue and in the opinion of directors, the amounts due from the minority shareholders are irrecoverable and accordingly, an allowance of HK\$1,396,226 was recognised in the consolidated income statement during the year ended 31st December 2005.

**27. TRADE AND OTHER PAYABLES**

	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Trade payables	<b>352,350</b>	412,161
Other payables	<b>5,786,078</b>	4,960,447
	<u><b>6,138,428</b></u>	<u>5,372,608</u>

An aged analysis of the trade payables as at the balance sheet date are as follows:

	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Due within 3 months or on demand	<b>11,792</b>	412,161
Due after 3 months but within 6 months	–	–
Due after 6 months but within 1 year	–	–
Over 1 year	<b>340,558</b>	–
	<u><b>352,350</b></u>	<u>412,161</u>

## 28. AMOUNT DUE TO A SHAREHOLDER

	2005 HK\$	2004 HK\$
Loan advanced therefrom (note a)	–	2,321,709
Amount due thereto (note b)	<b>18,217,071</b>	106,000
	<b>18,217,071</b>	2,427,709

Notes:

- (a) Loan advanced from a shareholder is unsecured, interest free (2004: bear interest ranged from 1.6% to 2.7% per annum) and is repayable on demand.
- (b) Amount due to a shareholder represented operating expenses paid on behalf of the Group. The amount is unsecured, interest free and repayable on demand.
- (c) The directors consider that the carrying amount of amount due to a shareholder was approximate to its fair value.

## 29. AMOUNTS DUE TO DIRECTORS

The amounts due to directors are unsecured, interest free and repayable on demand.

## 30. BORROWINGS

	2005 HK\$	2004 HK\$
Unsecured bank loan (note a)	<b>13,207,547</b>	14,150,943
Unsecured other loan (note b)	<b>436,321</b>	471,698
	<b>13,643,868</b>	14,622,641
Carrying amount repayable:		
On demand or within one year	<b>13,643,868</b>	14,622,641
Less: Amounts due within one year shown under current liabilities	<b>(13,643,868)</b>	(14,622,641)
	–	–

### 30. BORROWINGS (Continued)

Notes:

- (a) The unsecured bank loan amounting to HK\$13,207,547 (2004: HK\$14,150,943) was bearing interest at 6.38% (2004: 6.38%) per annum and matured on 30th May 2005. The unsecured bank loan has been overdue and interest charge at 9.558% per annum. The Company is in the process of negotiating the terms with the relevant banker. As at 31st December 2005, those negotiations had not been concluded and the lender has not agreed to waive its right to demand immediate payment as at the balance sheet date.

The unsecured bank loan is guaranteed by a former shareholder of a subsidiary of the Company.

- (b) The other loan of HK\$436,321 (2004: HK\$471,698) advanced from an independent third party is interest free (2004: interest of 2% per month) and repayable on demand.

The Group's borrowings that are denominated in currency other than the functional currency of the relevant group entities are set out below:

	<b>2005</b>	2004
	<b>RMB</b>	RMB
Fixed-rate bank loans	<u>14,000,000</u>	<u>15,000,000</u>
Other loans	<u>462,500</u>	<u>500,000</u>

The directors consider that the carrying amount of borrowings was approximate their fair value.

### 31. RETIREMENT BENEFITS

Subsidiaries operating in the PRC participate in state-managed retirement benefit schemes whereby the subsidiaries are required to pay annual contributions at the rate of 19% – 34% of the basic salaries. Under these schemes, retirement benefits of existing and retired employees are payable by the relevant authorities and the Group has no further obligations beyond the annual contributions.

The Company operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme managed by an independent approved MPF trustee. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the scheme vest immediately.

### 31. RETIREMENT BENEFITS (Continued)

During the year, the aggregate contributions made by the Group to the retirement schemes amount to HK\$396,443 (2004: HK\$281,016). The Group does not operate any other scheme for retirement benefits provided to the Group's employees.

### 32. SHARE CAPITAL

	Notes	2005		2004	
		Number of shares	HK\$	Number of shares	HK\$
<i>Authorised:</i>					
Ordinary share of HK\$0.01 each		<b>4,000,000,000</b>	<b>40,000,000</b>	4,000,000,000	40,000,000
<i>Issued:</i>					
At 1st January		<b>200,000,000</b>	<b>2,000,000</b>	20,000,000	200,000
Issuance of shares for cash	(i)	–	–	70,000,000	700,000
Capitalisation issue	(ii)	–	–	110,000,000	1,100,000
At 31st December		<b>200,000,000</b>	<b>2,000,000</b>	200,000,000	2,000,000

*Notes:*

- (i) On 7th January 2004, 70,000,000 ordinary shares of HK\$0.01 each were issued and offered for subscription ("Placing") at a price of HK\$0.43 per share upon the listing of the Company's shares on the GEM of the Stock Exchange. The Group raised approximately HK\$17,766,990 net of related expenses from the Placing.
- (ii) Pursuant to a resolution of the directors' meeting held on 6th January 2004 (conditional upon the share premium account of the Company being credited as a result of the Placing), an amount of HK\$1,100,000 standing to the credit of the share premium account of the Company was applied in paying up in full at par 110,000,000 ordinary shares of HK\$0.01 each allotted pursuant to the capitalisation issue authorised by a written resolution passed on 25th November 2003.

### **33. SHARE-BASED PAYMENT TRANSACTIONS**

A share option scheme (the "Scheme") of the Company was adopted on 25th November 2003 for the purpose of providing incentives and rewards to eligible participants, including the executive directors of the Company, who contribute to the success of the Group's operations.

The Board of Directors of the Company may, at their discretion, grant option to the eligible participants including any employees, directors, suppliers, customers, advisors, consultants, joint venture partners and any shareholders of any members of the Group or any invested entities or any holders of any securities issued by any members of the Group or any invested entities. The maximum number of shares of the Company which may be issued upon exercise of all options granted under its Scheme or any other share option scheme adopted by the Company must not exceed 30% of its issued share capital from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option scheme of the Group must not in aggregate exceed 20,000,000 shares, being 10 per cent of the shares in issue unless it is approved by shareholders in a general meeting of the Company. The maximum number of shares issuable under the options to each eligible participant in any 12-month period is limited to 1% of the shares in issue unless it is approved by substantial shareholder in a general meeting of the Company. Any grant of options under the Scheme to a director, chief executive, management shareholder or substantial shareholder of the Company or any of their respective associates must be approved by independent non-executive directors (excluding any independent non-executive director who or whose associate is the proposed grantee of the options). Any share options granted to a substantial shareholder or an independent non-executive director of the Company or to any of their respective associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of grant) in excess of HK\$5 million, in any 12-month period, are subject to shareholders' approval in a general meeting of the Company.

At 31st December 2005, the number of shares of the Company in respect of which options had remained outstanding under the Scheme of the Company was 15,070,000, representing 7.54% of the shares of the Company in issue at that date.

The offer of a grant of share options may be accepted within 21 business days from the date of the offer of grant of the option. The consideration for a grant of options the Company is HK\$1.00. The exercise period of the share options granted is determined by the Board of Directors.

Total consideration received during the year from eligible participants for taking up the options granted during the year is HK\$45 (2004: Nil).

### 33. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The exercise price of the share options is determined by the Board of Directors providing that the exercise price of the share options shall not be less than the highest of (i) the closing price of the shares on GEM as stated in the Stock Exchange's daily quotations on the date of the offer of grant, which must be a business day; (ii) the average closing price of the shares on GEM as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

The following table discloses the details of the share options under Share Option Scheme held by directors, employees, consultants and other eligible participants of the Company and movements in such holdings during the year of 2004 and 2005:

		Number of share options					
		Outstanding at 1/1/2004, 31/12/2004 and 1/1/2005	Granted during the year	Cancelled during the year	Outstanding at 31/12/2005	Exercise price per share HK\$	
	Date of Grant						
Directors	17th January 2005	–	2,020,000	(250,000)	1,770,000	0.45	
	10th October 2005	–	4,700,000	–	4,700,000	0.14	
		–	6,720,000	(250,000)	6,470,000		
Employees	17th January 2005	–	3,480,000	(2,480,000)	1,000,000	0.45	
	10th October 2005	–	1,400,000	(300,000)	1,100,000	0.14	
		–	4,880,000	(2,780,000)	2,100,000		
Consultants	10th October 2005	–	6,700,000	(2,200,000)	4,500,000	0.14	
Other eligible participants	17th January 2005	–	2,000,000	–	2,000,000	0.45	
Exercisable at the end of the year		–	20,300,000	(5,230,000)	15,070,000		

### 33. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

During the year ended 31st December 2005, options were granted on 17th January and 10th October. The estimated fair values of the options granted on those dates are HK\$1,831,500 and HK\$1,450,240 respectively. No options were granted prior to 1st January 2005.

These fair values were calculated using the Binomial model. The inputs into the model were as follows:

	Share options grant date	
	17/1/2005 HK\$	10/10/2005 HK\$
Share price on grant date	HK\$0.445	HK\$0.14
Exercise price	HK\$0.45	HK\$0.14
Expected volatility	75% per annum	75% per annum
Expected life	10 years	10 years
Risk-free rate	2.89% per annum	4.127% per annum
Expected dividend yield	0% per annum	0% per annum

In respect of the share options granted on 17th January 2005, the valuation of the fair value as at the balance sheet date was conducted by a professional valuation company, Watson Wyatt Hong Kong Limited on 4th August 2005. According to its report, the volatility rate of the share price of the Company was determined with reference to the movement of selected comparators' share prices during the period from November 1999 to July 2005. Taking into account the probability of leaving employment and early exercise behavior stated above, the expected life of the grant of options was estimated to be 5.24 years. The risk-free interest rate is taken to be the linearly interpolated yield using Hong Kong Exchange Fund Notes as at 17th January 2005. It is expected that option holders will exercise when the share price is at least 325% of the exercise price.

In respect of the share options granted on 10th October 2005, the valuation of their fair value as at the balance sheet date was conducted by another professional valuation company, B.I. Appraisals Limited, on 22nd March 2005. According to its report, historical volatility rate of the share price of the Company was determined with reference to the 90-day historical share prices of the Company proceeding the balance sheet date. Risk-free rate of 4.127% were adopted which were the Hong Kong Interbank Offered Rates (6-months) as at the end of December 2005. Other terms and conditions of these options including but not limited to the exercise condition, number of share outstanding, strike price and conversion numbers of the options.

The Group recognised the total expenses of HK\$3,281,740 for the year ended 31st December 2005 (2004: Nil) in relation to share options granted by the Company.



### 34. ACQUISITION OF A SUBSIDIARY

On 24th June 2005, the Group acquired 100% of the issued share capital and shareholder's loan of New Champion for a consideration of HK\$9,701,250 and HK\$5,298,750 respectively. This acquisition of subsidiary has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was HK\$9,697,350.

In the opinion of directors, the fair value of the identifiable assets and liabilities of the subsidiary acquired during the year have no significant differences from their respective carrying amounts. The net assets acquired in the transaction, and the goodwill arising, are as follows:

	<b>Acquiree's carrying amount</b>
	<i>HK\$</i>
Net assets acquired:	
Other receivables	3,900
Interest in an associate	5,298,750
Loan from a former shareholder	(5,298,750)
	<hr/>
	3,900
	<hr/>
Goodwill	9,697,350
	<hr/>
Consideration is satisfied by:	
Cash	15,000,000
Less: shareholder's loan	(5,298,750)
	<hr/>
Net consideration	<u>9,701,250</u>

The outflow of cash and cash equivalents in respect of the purchase of this subsidiary together with the shareholder's loan are HK\$15,000,000.

Pursuant to the sales and purchase agreement for the acquisition of New Champion. The consideration shall be adjusted if the audited net profit (prepared in accordance with PRC General Acceptable Accounting Practice) of Beijing AIS, for the period commencing from 1st July 2005 to 30th June 2008 ("Actual result") be lower than RMB10,000,000. In the event that the original consideration shall be adjusted in accordance with the above mechanism, the vendor shall within 30 business days after the issue of the Actual Result refund the applicable agreed amount to the Group in cash. Further details of the acquisition are set out in the Company's circular dated 15th July 2005.

**34. ACQUISITION OF A SUBSIDIARY** *(Continued)*

The goodwill arising on the acquisition of New Champion is attributable to the anticipated profitability of its associate, Beijing AIS, which engaged in development and sales of jukebox and provision of related services that can be broadly applied in the PRC market in the near future.

New Champion did not contribute any revenue nor profit to the Group for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1st January 2005, total group revenue and profit for the period would not be changed.

**35. COMMITMENTS**

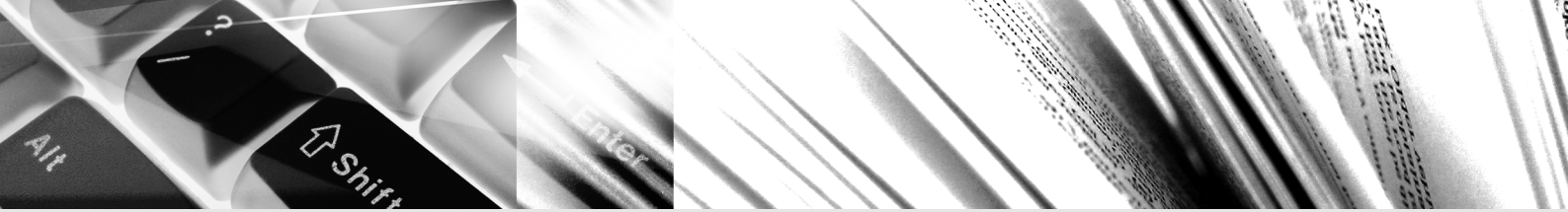
- (a) At the balance sheet date, the Group had capital commitments contracted but not provided for in the financial statement were as follows:

	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Contracted for	—	943,396

- (b) At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases are repayable as follows:

	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Within 1 year	<b>1,852,666</b>	2,303,680
Over 1 year but within 5 years	<b>2,345,561</b>	3,961,396
	<b>4,198,227</b>	6,265,076

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to four year, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.



Notes to the Financial Statements  
For the year ended 31st December 2005

### 36. LITIGATION

Two writ of summons were filed against the Company for damages in relation to breaches of agreements and defamation arising from the termination of an acquisition of a company. After seeking legal advice, the directors are of the opinion that the alleged claims are unjustifiable and will take vigorous actions to defend the cases. Notices of appeal have been served on 23rd February 2005 and 25th February 2005. Checklist Hearing on 26th October 2005 was attended.

The directors consider that the Company has valid defences against the claims. Accordingly, no provision has been made in respect of the alleged claims in the consolidated financial statements.

### 37. RELATED PARTY TRANSACTIONS

(a) Significant transactions

	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Rental expenses ( <i>Note</i> )	<b><u>73,228</u></b>	<u>278,400</u>

*Note:* Rental expenses are paid to a shareholder for the lease of office.

(b) Balances with related parties are disclosed in notes 26, 28 and 29 of the consolidated balance sheet.

(c) Compensation of directors and key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Short-term benefits	<b>2,131,774</b>	2,315,325
Post-employment benefits	<b>76,744</b>	99,768
Share-based payments	<b><u>1,208,944</u></b>	<u>–</u>
	<b><u>3,417,462</u></b>	<u>2,415,093</u>

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

### 37. RELATED PARTY TRANSACTIONS (Continued)

- (d) On 17th January 2005, the Company granted 2,000,000 share options to one of its substantial shareholders with an exercised price of HK\$0.45. The estimated fair value of the options granted to this shareholder on that date is HK\$0.2442. The corresponding share-based payments for the options granted amounted to HK\$488,400.

### 38. SUBSIDIARIES

Name of company	Place of incorporation/ establishment	Place of operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
				Group's effective interest	held by the Company	held by subsidiary	
Besto Investment Limited ("Besto")	British Virgin Islands ("BVI")	Hong Kong	US\$14,833	100%	100%	–	Investment holding
SJTU Sunway Information Technology Co., Ltd. ("SJTU Sunway (Beijing)")*	PRC	PRC	RMB25,000,000	100%	–	100%	Provision of translation services and sales of general software
SUNV (Beijing) Century Information Technology Co., Ltd.*	PRC	PRC	RMB6,000,000	100%	–	100%	Provision of translation services
New Champion International Ltd	BVI	BVI	US\$500	100%	–	100%	Investment holding
Beijing Guoxin Sunway IT Co., Ltd.#	PRC	PRC	RMB2,000,000	51%	–	51%	Provision of translation services
Shanghai Sunway Century IT Co., Ltd.#	PRC	PRC	RMB5,000,000	90%	–	90%	Provision of translation services
Fujian Multi Language Translation Service Company Limited #	PRC	PRC	RMB5,000,000	75%	–	75%	Provision of translation services

\* These are wholly foreign-owned enterprises established in the PRC.

# These are domestic limited liability companies established in the PRC.

None of the subsidiaries had issued any debt securities at the year end 31st December 2005.

## FIVE-YEARS FINANCIAL SUMMARY

(Expressed in Hong Kong dollars)

	2005 HK\$	For the year ended 31 December			
		2004 HK\$ (restated)	2003 HK\$	2002 HK\$	2001 HK\$
<b>RESULTS</b>					
Revenue	<b>3,763,589</b>	13,949,217	35,502,319	40,614,887	31,964,278
Cost of sales	<b>(2,591,856)</b>	(9,573,605)	(11,910,108)	(15,113,833)	(12,491,494)
Gross profit	<b>1,171,733</b>	4,375,612	23,592,211	25,501,054	19,472,784
Other operating income	<b>146,306</b>	1,114,638	2,246,769	3,085,397	2,691,947
Selling expenses	<b>(4,823,871)</b>	(14,952,792)	(8,246,410)	(11,214,800)	(10,370,214)
Research and development costs	<b>(1,598,194)</b>	(3,416,519)	(2,545,448)	(2,694,059)	(813,148)
Administrative expenses	<b>(29,467,653)</b>	(12,477,941)	(6,185,542)	(6,039,075)	(4,226,174)
Share of results of associates	<b>(658,940)</b>	4,700	–	–	–
Finance costs	<b>(1,124,725)</b>	(631,050)	(208,037)	122,379	(44,170)
Loss on disposal of an associate	<b>(3,097,889)</b>	–	–	–	–
(Loss)/profit before taxation	<b>(39,453,233)</b>	(25,983,352)	8,653,543	8,760,896	6,711,025
Income tax expenses	<b>(5,722)</b>	(373)	(509,068)	–	–
(Loss)/profit for the year	<b>(39,458,955)</b>	(25,983,725)	8,144,475	8,760,896	6,711,025
Attributable to:					
Equity holders of the parent	<b>(38,371,804)</b>	(25,495,725)	8,144,475	8,760,896	6,711,025
Minority interests	<b>(1,087,151)</b>	(488,000)	–	–	–
	<b>(39,458,955)</b>	(25,983,725)	8,144,475	8,760,896	6,711,025
(Loss)/earnings per share					
Basic	<b>(19.19) cents</b>	(12.82) cents	6.26 cents	6.74 cents	5.16 cents
Diluted	<b>N/A</b>	N/A	N/A	N/A	N/A
<b>As at 31 December</b>					
	2005 HK\$	2004 HK\$	2003 HK\$	2002 HK\$	2001 HK\$
<b>ASSETS AND LIABILITIES</b>					
Total assets	<b>51,647,753</b>	71,591,222	74,652,954	47,803,900	27,689,375
Total liabilities	<b>(39,321,404)</b>	(23,087,658)	(21,208,127)	(16,182,793)	(4,829,164)
	<b>12,326,349</b>	48,503,564	53,444,827	31,621,107	22,860,211
Equity attributable to equity holders of the parent	<b>11,326,028</b>	46,416,092	53,444,827	31,621,107	22,860,211
Minority interests	<b>1,000,321</b>	2,087,472	–	–	–
	<b>12,326,349</b>	48,503,564	53,444,827	31,621,107	22,860,211