Xteam Software International Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8178

2005 Annual Report

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GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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

This report, for which the directors ("Directors") of Xteam Software International Limited (the "Company") collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading: (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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EXECUTIVE DIRECTORS

Mr. Li Kang Ying *(Chairman)*
Mr. Wang Dong Bin *(Chief executive officer)*
Mr. Ma Gary Ming Fai *(Vice Chairman)*
Mr. Cao Wei
Mr. E Meng
Mr. Yan Qing
Mr. Ng Kong Fat, Brian
Ms. Chen Zhi

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Ma Yu Hua
Ms. Liang Ye Ping
Mr. Jiang Qi Ping

COMPANY SECRETARY

Ms. Lee May Lun

QUALIFIED ACCOUNTANT

Ms. Lee May Lun

COMPLIANCE OFFICER

Mr. Ng Kong Fat, Brian

AUTHORISED REPRESENTATIVES

Mr. Ng Kong Fat, Brian
Ms. Lee May Lun

REMUNERATION COMMITTEE

Ms. Ma Yu Hua *(Chairman)*
Ms. Liang Ye Ping
Mr. Jiang Qi Ping
Mr. Li Kang Ying

AUDIT COMMITTEE

Ms. Ma Yu Hua
Ms. Liang Ye Ping
Mr. Jiang Qi Ping

AUDITORS

Ernst & Young

LEGAL ADVISORS

Baker & Mckenzie
Conyers Dill & Pearman

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

M/F., Yardley Commercial Building
No. 3 Connaught Road West
Sheung Wan, Hong Kong

REGISTERED OFFICE

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Ltd.
Butterfield House, 68 Fort Street
P.O. Box 705, George Town
Grand Cayman, Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

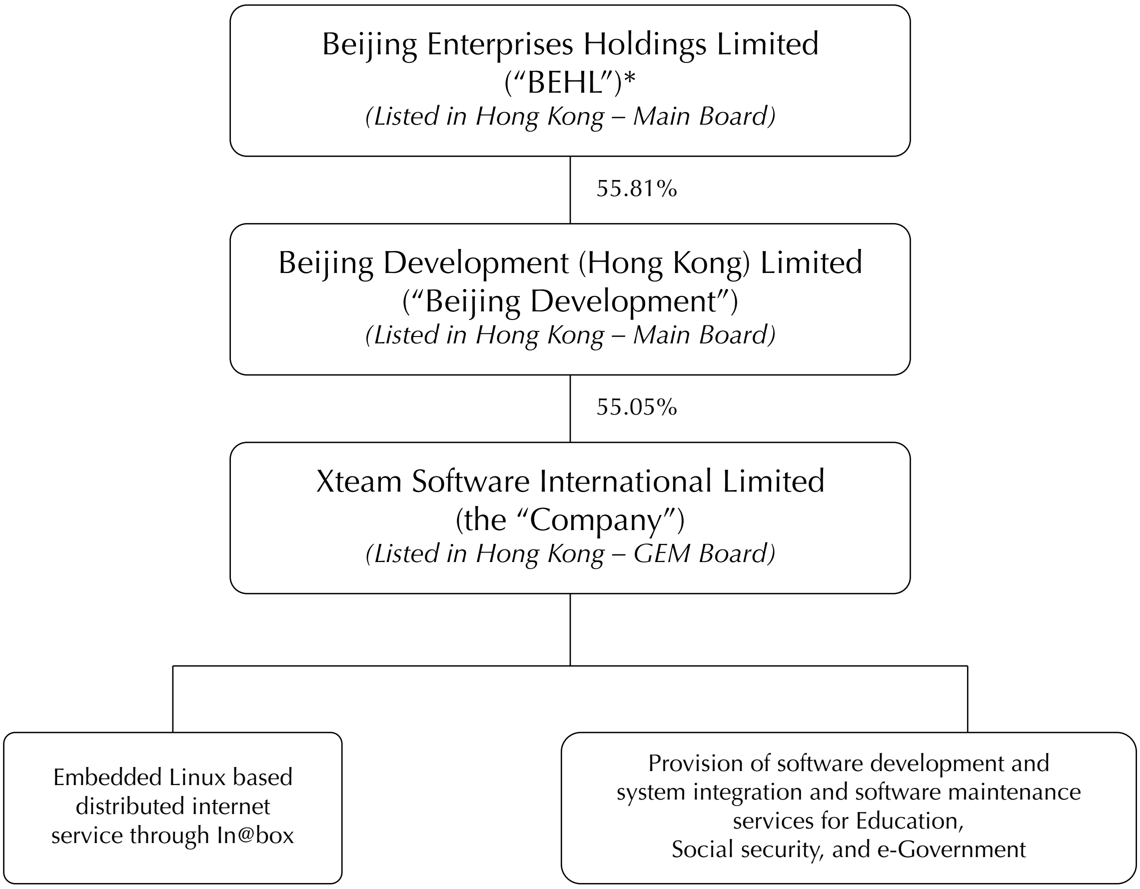
Computershare Hong Kong Investor Services Limited
17th Floor, Hopewell Centre
183 Queen's Road East, Hong Kong

GEM STOCK CODE

8178

WEB-SITE ADDRESS

Xteamlinux.com.cn



* A company under the control of Beijing Municipal Government

INTRODUCTION

Below are the highlights of the Group's overall performance in 2005:

1. Xteam's e-government and applications software business witnessed an overall steady development with solid profitability in 2005.

2. The integration of software businesses acquired from Beijing Development with Xteam's Linux business and the restructuring of Xteam's management team has been completed during the year. However, our profit for the year, to some extent, was adversely affected by restructuring of Xteam's original loss making business and once off expenses incurred by some staff layoff.

3. The acquisition of In@box project was completed in December 2005. This set the future direction for Xteam's Linux business development: embedded Linux based distributed internet service.

The main business of the Xteam Group in 2004 was the development and sale of computer software primarily for large scale applications and provision of related support services to government and major corporate customers in mainland China, with particular strength in Beijing. In 2005, such business sectors experienced steady development with sustainable profitability. On the other hand, our profitability composition began its gradual transition from project based software development and sale of software to provision of application services during the year. With regard to Linux business, through the acquisition of In@box and capitalising on the edge of Linux core expertise of our team, Xteam will focus on the development of embedded Linux applications and the construction of distributed Internet service system, so as to establish a solid network platform for its application software and services.

PROSPECTS

We foresee a bright future for China's Internet based information industry for the following reasons:

1. China has immense consumer market for information services: over 20 million SME, over 100 million Internet users, over 700,000 primary and secondary schools and several hundred million students.

2. Internet based application services now become the development trend of international IT industry.

3. In@box possesses proprietary technology platform and business model.

4. The PRC Government's determination to spend massively on information automation.

5. Beijing Municipal Government plays a leading role in China's IT industry and serves as an example to the rest of the nation.

6. Experiences, technique, relationship and data accumulated and developed throughout the years by the team members of Xteam.

7. Established distribution platform with operations over 20 provinces and cities in PRC.

STRATEGIES

1. Continue our efforts in building a strong base of recurrent cash income. Increase the proportion of operation service income and complete the company's gradual transformation from software developer into information service provider.

2. Fully utilize the advantages offered by In@box's proprietary technology and provide embedded Linux technology-based information service to the public via the Internet.

3. Banking on the edge of government background and experience accumulated in Beijing, Xteam will expand its business across the nation.

4. Pay particular emphasis on education service market with schools and families as target customers. In 2006, Xteam is well positioned to explore the ample opportunities offered by thousands of primary and secondary schools and over 300,000 primary and secondary students IC card users. We aim to produce a strong performance for Xteam's education business.

5. We are operating in one of the most important and exciting information technology markets in the world. We believe that, despite our size, Xteam is of potential interest to international investors. We will continue to increase our efforts to communicate effectively and helpfully with the investment community.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to extend my gratitude and appreciation to our shareholders and parties for their support, and our hardworking colleagues during the year.

Li Kang Ying
Chairman

Hong Kong, 24th March, 2006

FINANCIAL REVIEW

The Group reported a consolidated turnover of approximately HK$66,891,000 for the year ended 31 December 2005, up 29.3% compared with revenue of approximately HK$51,739,000 for the nine months ended 31 December 2004.

The profit attributable to shareholders for the year ended 31 December 2005 was approximately HK$10,065,000 in comparison with the profit of approximately HK$11,297,000 for the nine months ended 31 December 2004, slightly decrease 10.9%. Such decrease was mainly due to the lump sum expenses incurred in 2005 when the Group restructured and laid off some staff for one of Xteam's original loss making subsidiary.

The Group's gross profit margin also posted a moderate increase to 63.3% for the year ended 31 December 2005, compared with the 56.2% for the nine months ended 31 December 2004. The software businesses, including education, social security and e-government software development and maintenance services acquired by the Group in 2004, became the major income source for the Group.

LIQUIDITY, FINANCIAL RESOURCES AND DEBT RATIO

As at 31 December 2005, the Group had cash and bank balances of approximately HK$30,949,000 (2004: HK$16,459,000) and had no outstanding bank loan (2004: Nil).

The gearing ratio (defined as total liabilities over equity) of the Group as at 31 December 2005 was approximately 7.3% (2004: approximately 5.7%).

The debt ratio (defined as total liabilities over total assets) of the Group as at 31 December 2005 was approximately 6.8% (2004: approximately 5.4%).

CAPITAL STRUCTURE AND EXPOSURE TO EXCHANGE RATES FLUCTUATION

As at 31 December 2005, the number of issued share capital of the Company was 3,842,606,368 (2004: 3,758,471,752). During the year, a total of 84,134,616 new ordinary shares of the Company were issued for the acquisition of a subsidiary. For details of the acquisition, please refer to the following section headed "Acquisition During the Year".

As at 31 December 2005, the Group held cash and cash equivalents denominated in Hong Kong Dollars and Renminbi.

Substantially all of the revenue-generating operations of the Group are transacted in Renminbi, which is not freely convertible into foreign currencies. The Group had prudent policy to manage currency and interest rate exposures, and as most of the Group's monetary assets and liabilities are denominated in Renminbi and Hong Kong Dollars, the exchange rate risks of the Group is considered minimal.

FINANCIAL INSTRUMENTS

The carrying amounts of the Group's cash and cash equivalents, trade receivables and payables, other receivables and payables, are approximately at their fair values because of the short maturity of these instruments.

The Group did not enter into any foreign exchange forward contracts to hedge against fluctuations.

ACQUISITION DURING THE YEAR

On 21 November 2005, a newly established wholly owned subsidiary of the Group, Go Good Holdings Limited ("Go Good") entered into a share purchase and share subscription agreement ("Agreement") with three independent third parties, being Mr. Zhang Da Jian, Mr. Liu Feng and Asren Holdings Limited ("Asren"). Pursuant to the Agreement, Go Good acquired a 51% enlarged equity interest in Asren. The total consideration for the acquisition and subscription was in the form of 84,134,616 new shares of the Company issued to Mr. Zhang Da Jian and Mr. Liu Feng at market price of HK$0.058 per share on 7 December 2005 (market value amounted to approximately HK$4,880,000) and promissory note amounting to HK$9,615,000 issued by the Group to Asren.

The coming business of Asren will make use of In@box to penetrate into the small to medium size enterprises market in the PRC. In@box will help such enterprises to enjoy the economic benefits and convenience bought from the internet world by paying relatively low cost. In@box was developed by the two founders of Asren and their research and development team, it integrates various computer applications (such as access, routing, security of a network, mail servers, and enterprise websites and etc) into a system comprising an embedded linux hardware platform and a backend support system. In@box actually is a hardware as well as a software computer device.

For details of the acquisition, please refer to the announcement and circular of the Company dated 21 November 2005 and 5 December 2005 respectively.

SEGMENT INFORMATION

No analysis of the Group's turnover and its contribution to profit before tax by principal activities for the year were presented as 100% (nine months ended 31 December 2004: 100%) of the Group's turnover and operating results arose from the sale of computer software, provision of system integration, software development and related services in the PRC.

STAFF

As at 31 December 2005, the Group employed approximately 350 employees, including directors of the Company (2004: approximately 350), at market remuneration and benefits such as pension schemes, employee share options and medical insurance, etc. Total staff costs for the year were approximately HK$17,683,000 (nine months ended 31 December 2004: approximately HK$9,832,000).

CHARGE OF ASSETS

As at 31 December 2005, the Group did not have any charge on its assets (2004: Nil).

CONTINGENT LIABILITIES

As at 31 December 2005, the Group did not have any material contingent liabilities (2004: Nil).

COMPETING INTERESTS

During the year under review, none of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had any interest in a business that competed or might compete with the business of the Group.

EXECUTIVE DIRECTORS

Mr. LI Kang Ying, aged 49, is the chairman of the Company. Mr. Li is also the executive director and general manager of Beijing Development and the chairman of B E Information Technology Group Limited (a subsidiary of Beijing Development) and a director of each of Wisdom Elite, Astoria, Beijing Enterprises VST Software Engineering Co., Ltd. ("VST") and Beijing Enterprises Sanxing Information Technology Co., Ltd. ("Sanxing"), all of which are subsidiaries of the Company. He graduated from North China University of Electric Power majoring in telecommunications and is a qualified engineer in the PRC. Mr. Li was a university lecturer and a member of the governmental research institute and has been responsible for the management and operational affairs in the technological field for the past decade.

Mr. WANG Dong Bin, aged 38, is the chief executive officer of the Company, and he is also the chairman and general manager of 北控軟件有限公司 (a subsidiary of Beijing Development). He graduated from Tsinghua University in 1992 with a master's degree in Applied Physics. Mr. Wang has over 13 years' experience in the telecommunications and information technology field.

Mr. MA Gary Ming Fai, aged 42, is the vice chairman of the Company. He is the founder or early investor in a number of technology projects both in the PRC and Hong Kong. Mr. Ma is a member of the Institute of Chartered Accountants of Ontario in Canada by training and has worked for several years with an international accounting firm. Mr. Ma received his Bachelor of Commerce degree from the University of Calgary, Canada in 1985. He joined the Group in December 1999.

Mr. CAO Wei, aged 42, is the executive director of Beijing Development, the director and chief executive officer of B E Information Technology Group Limited and a director of each of Wisdom Elite and VST, both of which are subsidiaries of the Company. He graduated from Harbin Industrial University and is one of the founding members of the underlying business of B E Information Technology Group Limited. Mr. Cao has over 15 years' experience in the telecommunications and information technology field.

Mr. E Meng, aged 47, is the vice president of Beijing Enterprises and the executive director and deputy general manager of Beijing Development. Mr. E graduated from China Science and Technology University with a master's degree in engineering, and is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. From 1988 to 1998, Mr. E was the deputy director of Beijing New Technology Development Zone ("BNTDZ"), the director for BNTDZ Department of Finance Auditing and State Asset Management, the manager of BNTDZ Investment Operation Company, the director of Beijing Tianping Accounting Firm and the deputy director of the State Asset Management Office of Beijing Haidian District. Mr. E has over 15 years' experience in economics, finance and enterprise management.

Mr. YAN Qing, aged 44, is the deputy general manager of Beijing Development. He is the Chairman of two subsidiaries of the Company, being Sanxing and VST. He graduated from Renmin University of China in 1985 with a bachelor's degree in Business. He also obtained a master's degree in Business Administration from University of South Australia in 2005. Mr. Yan has over 15 years of experience in financial and management.

Mr. NG Kong Fat, Brian, aged 50, is the executive director of Beijing Development. Mr. Ng graduated from the University of Stirling in Scotland in 1983 and is a member of the Institute of Chartered Accountants of Scotland. Mr. Ng has over 20 years' experience in corporate, investment and financial management.

Ms. CHEN Zhi, aged 34, graduated from Fudan University, Shanghai in 1992. Ms. Chen has over 10 years of experience in marketing, financial, corporate and human resources management in the information technology field in the PRC and Canada.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. MA Yu Hua, aged 57, graduated from Beijing Financial College. Ms. Ma was the general manager of Beijing International Trust and Investment Co., Ltd. and was responsible for the financial department of Beijing Economic Construction Company. Ms. Ma has over 30 years' extensive experiences in financial management and investment and she is currently the president of Guodu Securities Company Limited.

Ms. LIANG Ye Ping, aged 57, graduated from China Communist Party's School and School of Economics and Management of Tsinghua University. Ms. Liang is currently the chief consultant of the Global Chinese CEO's Fellowship MBL course, a professor of the Global Chinese Competitiveness Foundation and a council member of the China Enterprise Directors Association. Ms. Liang was the president of various companies such as China Xingfa Group Co., Ltd., Beijing Guoxinan IC Design Co., Ltd., Nanjing Jiangning Digital Harbor Co., Ltd., etc. in which she has accumulated extensive experiences in operation, management and information technology.

Mr. JIANG Qi Ping, aged 43, graduated from Tianjin Nan Kai University in 1984. Mr. Jiang is currently the general secretary of the Information Research Centre of Chinese Academy of Social Sciences and is responsible for the research and development on information integration standard for the government, enterprises, manufacturers, e-business, e-government, etc. In 1999, Mr. Jiang was awarded with the "Man of the Time" and the "10 Most Outstanding Internet Persons of the Year" by Beijing Youth Newspaper. Mr. Jiang is also one of the IT commentators and an honorary chief editor of China Internet Weekly magazine and has several publications on information technology such as《信息化測算的理論與方法》、《數字財富》and《新商業模型》etc.

SENIOR MANAGEMENT

Mr. LI Ji Cheng, aged 41, is the chief executive of VST. He graduated from Tianjin University in 1988 with a bachelor's degree and obtained a master's degree in 1988. Mr. Li was a university lecturer and has over 13 years of experience in project management and information technology.

Ms. ZHENG Shao Hua, aged 49, is the general manager of Sanxing. She graduated from Beihang University in 1983. Ms. Zheng has over 20 years of experience in project management and information technology.

Mr. PENG Wen Sheng, aged 37, is the chairman of Shanghai Pantosoft Company Limited, a subsidiary of the Company. Mr. Peng graduated from the Engineering Faculty of Nanjing University of Science & Technology in 1987 with a bachelor degree in Science. He also obtained a master degree in Science in Huazhong University of Technology in 1994. He joined the Company in December 2002.

Mr. ZHANG Da Jian, aged 38, is the general manager of Asren Holdings Limited and Xteam (Beijing) Network Limited, a subsidiary being established. He graduated from Beijing University of Technology in 1990. Mr. Zhang has over 16 years of experience in information technology.

Ms. CAO Mu Ya, aged 52, graduated from Beijing Administrative College, Ms. Cao joined Beijing Holdings Limited and Beijing Enterprises Holdings Limited from 1988, she is the director and vice president of 北京北控電信通信息技術有限公司 from 2001, she also is the director and financial controller of VST and Sanxing which are the subsidiaried of the Company. Ms. Cao has over 20 years of experience in finance and corporate management. She joined the Company in March 2006.

Ms. LEE May Lun, aged 39, has been appointed as the Company Secretary, Authorized Representative and Qualified Accountant of the Company in August 2005. Ms. Lee has over 18 years' experience in administration, accounting and business finance. Before joining the Company, Ms. Lee has worked for an international audit firm, several main board listing companies and a private enterprise with major business in bullion investment. She is a fellow member of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants, and an associate member of the Institute of Chartered Accountants in England and Wales.

The directors present their report and 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. Details of the principal activities of the subsidiaries are set out in note 14 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 23 to 69.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated as appropriate, is set out on page 70. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 24 and 25 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 26(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2005, the Company's reserves including share premium account, available for cash distribution and/or distribution in specie, calculated in accordance with provisions of the Companies Law of the Cayman Islands, amounted to HK$276,241,000. Under the laws of the Cayman Islands, a company may make distributions to its members out of the share premium account under certain circumstances.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 60.4% of the total sales for the year and sales to the largest customer included therein amounted to 15.9%. Purchases from the Group's five largest suppliers accounted for 50.4% of the total purchases for the year and purchases from the largest supplier included therein amounted to 27.2%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

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

Executive directors:

Mr. Zhang Hong Hai (resigned on 14 March 2006)
Mr. Li Kang Ying
Mr. Wang Dong Bin (appointed on 14 March 2006)
Mr. Ma Gary Ming Fai
Mr. Cao Wei
Mr. E Meng
Mr. Yan Qing (appointed on 14 March 2006)
Mr. Ng Kong Fat, Brian
Ms. Chen Zhi

Independent non-executive directors:

Ms. Ma Yu Hua
Ms. Liang Ye Ping
Mr. Jiang Qi Ping

In accordance with articles 86(3), 87(1) and 87(2) of the Company's articles of association, Mr. Wang Dong Bin, Mr. Yan Qing, Mr. Ma Gary Ming Fai and Mr. Cao Wei will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. Each of the independent non-executive directors is appointed for a period of three years commencing from their appointment dates.

The Company has received annual confirmations of independence from Ms. Ma Yu Hua, Ms. Liang Ye Ping and Mr. Jiang Qi Ping, and as at the date of this report still considers them to be independent.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2005, the interests and short positions of the directors in the share capital and underlying shares capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

(1) Long positions in ordinary shares of the Company:

	Number of shares held, capacity and nature of interest			
Name of director	**Directly beneficially owned**	**Through a controlled corporation**	**Total**	**Percentage of the Company's issued share capital**
Mr. Ma Gary Ming Fai	1,000,000	54,821,349 *(Note)*	55,821,349	1.45

Note: These shares are held by Upwise Investments Ltd. and the entire issued share capital of Upwise Investments Ltd. is beneficially owned by Mr. Ma Gary Ming Fai.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

(2) Long positions in shares of associated corporations:

Name of director	Name of associated corporation	Relationship with the Company	Number of shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Mr. Cao Wei	Beijing Development	Company's holding company	8,000,000	Directly beneficially owned	1.62
Mr. Ng Kong Fat, Brian	Beijing Development	Company's holding company	8,792,755	Through a controlled corporation *(Note)*	1.78
Mr. Wang Dong Bin	Beijing Development	Company's holding company	8,000,000	Directly beneficially owned	1.62
Mr. Ng Kong Fat, Brian	BD Ah Yat Abalone Group Limited	Company's fellow subsidiary	1,462,000	Directly beneficially owned	21.5

Note: These shares are held by Sunbird Holdings Limited and Sunbird Holdings Limited is beneficially owned by Mr. Ng Kong Fat, Brian.

(3) Interests in underlying shares of associated corporations:

At 31 December 2005, the interests of directors in options to subscribe for shares of Beijing Development (Hong Kong) Limited ("Beijing Development"), the Company's holding company, under the share option scheme of Beijing Development were as follows:

	Number of options held	
Name of director	*Note (a)*	*Note (b)*
Mr. Li Kang Ying	–	2,700,000
Mr. Cao Wei	–	2,500,000
Mr. E Meng	1,600,000	1,200,000
Mr. Ng Kong Fat, Brian	2,300,000	1,200,000
Mr. Wang Dong Bin	–	500,000

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

(3) Interests in underlying shares of associated corporations: *(Continued)*

Notes:

(a) These options were granted on 19 June 2001 at an exercise price of HK$1.13 per share. The options can be exercised in two or three equal portions. The first portion is exercisable at any time commencing on 1 January 2002, and each further portion becomes exercisable on 1 January in each of the following years. All of the options, if not otherwise exercised, will lapse on 26 June 2006. No such options were exercised during the year.

(b) These options were granted on 18 January 2002 at an exercise price of HK$1.00 per share. The options can be exercised in three equal portions. The first portion is exercisable at any time commencing on 18 January 2002, and each further portion becomes exercisable on 1 January in each of the following years. All of the options, if not otherwise exercised, will lapse on 17 January 2007. No such options were exercised during the year.

In addition to the above, Mr. Ma Gary Ming Fai has non-beneficial personal equity interests in a subsidiary held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

The interests of the directors in the share options of the Company are separately disclosed in note 25 to the financial statements.

Save as disclosed above, as at 31 December 2005, none of the directors or chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above and in the share option scheme disclosures in note 25 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

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

Long positions in ordinary shares of the Company:

Name	Notes	Capital and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Beijing Development	*(a)*	Through a controlled corporation	2,115,513,445	55.05
Beijing Enterprises Holdings Limited ("BEHL")	*(b)*	Through a controlled corporation	2,115,513,445	55.05
Beijing Enterprises Investments Limited	*(c)*	Through a controlled corporation	2,115,513,445	55.05
Beijing Holdings Limited	*(d)*	Through a controlled corporation	2,115,513,445	55.05
Mr. Chung Kwok Ho	*(e)*	Through a controlled corporation	382,864,129	9.96
Ms. Lee Man Yee	*(f)*	Interest of spouse	382,864,129	9.96
Cosmos Vantage Limited	*(g)*	Directly beneficially owned	382,864,129	9.96
Amberwood Group Ltd.	*(h)*	Directly beneficially owned	204,712,000	5.33
Ms. Chong Sok Un	*(i)*	Through a controlled corporation	204,712,000	5.33

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES *(Continued)*

Notes:

(a) Beijing Development was deemed to be interested in the 2,115,513,445 shares by virtue of its controlling interests in Prime Technology Group Limited and E-tron Limited.

(b) BEHL was deemed to be interested in the 2,115,513,445 shares by virtue of its controlling interests in Beijing Development.

(c) Beijing Enterprises Investments Limited was deemed to be interested in the 2,115,513,445 shares by virtue of its controlling interests in BEHL.

(d) Beijing Holdings Limited was deemed to be interested in the 2,115,513,445 shares by virtue of its controlling interests in Beijing Enterprises Investments Limited.

(e) Mr. Chung Kwok Ho held these shares through Cosmos Vantage Limited in which he is the sole beneficial owner.

(f) These shares were held by Cosmos Vantage Limited, which is wholly owned by Mr. Chung Kwok Ho. Ms. Lee Man Yee is the spouse of Mr. Chung Kwok Ho and accordingly she was deemed to be interested in these shares.

(g) Cosmos Vantage Limited is wholly owned by Mr. Chung Kwok Ho.

(h) Amberwood Group Ltd. is wholly owned by Ms. Chong Sok Un.

(i) Ms. Chong Sok Un held these shares through Amberwood Group Ltd. in which she is the sole beneficial owner.

Save as disclosed above, as at 31 December 2005, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONTINUING CONNECTED TRANSACTION

The Group entered into the following continuing connected transaction (other than continuing connected transactions that are exempted under Rule 20.33 of the Listing Rules) during the year ended 31 December 2005:

Pursuant to the Master Agreement dated 16 August 2004 entered into between the Company and its subsidiaries and Beijing Development and its subsidiaries in connection with the subcontracting of services, the Group paid technical service fee amounting to HK$1,132,000 during the year.

CONTINUING CONNECTED TRANSACTION *(Continued)*

The independent non-executive directors of the Company have confirmed that the above continuing connected transaction was entered into:

(a) in the ordinary and usual course of the Group's business;

(b) either on normal commercial terms or on terms no less favourable to the Group than those available to or from independent third parties; and

(c) in accordance with the terms of the relevant agreements governing the transaction on terms that were fair and reasonable and in the interests of the Company's shareholders as a whole.

The auditors of the Company have confirmed to the board of directors of the Company that the above continuing connected transaction:

(a) has been approved by the board of directors of the Company;

(b) has been entered into in accordance with the terms of the relevant agreements governing the transaction; and

(c) has not exceeded the cap set out in the Company's circular dated 30 June 2004.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

AUDITORS

During the year, Moore Stephens resigned as auditors of the Company and Ernst & Young were appointed by the directors to fill the casual vacancy so arising. There have been no other changes of auditors in the past three years. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Li Kang Ying
Chairman

Hong Kong
24 March 2006

INTRODUCTION

Subject to the deviations as disclosed on this report, the Company has complied with all the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules by establishing a formal and transparent procedures to protect and maximise the interests of shareholders during the year under review.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, the directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the directors throughout the year ended 31 December 2005.

BOARD OF DIRECTORS AND BOARD MEETING

The board of directors, which currently comprises eight directors, is responsible for corporate strategy, annual and interim results, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the board of directors to the management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the board of directors, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Details of backgrounds and qualifications of the chairman of the Company and the other directors are set out on Pages 8 and 9. All directors have given sufficient time and attention to the affairs of the Group. Each executive director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. Mr. Li Kang Ying is the chairman of the board of directors and an executive director and Mr. Wang Dong Bin is the chief executive officer of the Company and an executive director. There is no relationship among the members of the board of directors.

The Company appointed three independent non-executive directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. Ms. Ma Yu Hua, Ms. Liang Ye Ping and Mr. Jiang Qi Ping are the independent non-executive directors. All of them have been appointed as independent non-executive directors for a term of three years commencing on 14 December 2004 and are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's articles of association, provided that the appointment may be terminated by the Company or the independent non-executive director with a written notice of not less than one month unless both parties agree otherwise.

BOARD OF DIRECTORS AND BOARD MEETING *(Continued)*

The board of directors held a regular board meeting for each quarter. Apart from the above regular board meetings of the year, the board of directors will meet on other occasions when a board-level decision on a particular matter is required. The directors will receive details of agenda items for decision and minutes of committee meetings in advance of each board meeting.

REMUNERATION OF DIRECTORS

The remuneration committee was established in March 2006. The chairman of the committee is Ms. Ma Yu Hua, an independent non-executive director, and other members include Ms. Liang Ye Ping, Mr. Jiang Qi Ping and Mr. Li Kang Ying, the majority being independent non-executive directors.

The role and function of the remuneration committee included the determination of the specific remuneration packages of all executive directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

During the year, no meeting was held and a meeting of the remuneration committee will be convened in 2006.

NOMINATION OF DIRECTORS

The Board is empowered under the Company's Bye Laws to appoint any person as a director either to fill a casual vacancy on or, subject to authorisation by the shareholders of the Company in general meeting, as an additional member of the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience. The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Group's business.

There was no nomination of directors during the year. After the year end date, on 14 March 2006, the board has nominated Mr. Li Kang Ying as Chairman, Mr. Wang Dong Bin as executive director and chief executive officer and Mr. Yan Qing as executive director of the Company.

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Group is required to pay an aggregate of approximately HK$720,000 to the external auditors for their services in audit. There was no significant non-audit service assignment undertaken by auditors during the year.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises three members, including Ms. Ma Yu Hua, Ms. Liang Ye Ping and Mr. Jiang Qi Ping. All of them are independent non-executive directors. The chairman of the audit committee is Ms. Ma Yu Hua.

The audit committee held 4 meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

Members	**Attendance**
Ms. Ma Yu Hua	4/4
Ms. Liang Ye Ping	4/4
Mr. Jiang Qi Ping	4/4

The Group's unaudited quarterly and interim results and annual audited results during the year ended 31 December 2005 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

ERNST & YOUNG
安永會計師事務所

To the members
Xteam Software International Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 23 to 69 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

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

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

OPINION

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

Ernst & Young
Certified Public Accountants

Hong Kong
24 March 2006

Year ended 31 December 2005

	Notes	**Year ended 31 December 2005 HK$'000**	Period from 1 April 2004 to 31 December 2004 HK$'000
REVENUE	5	**66,891**	51,739
Cost of sales and services		**(24,540)**	(22,645)
Gross profit		**42,351**	29,094
Other income and gains	5	**4,938**	2,578
Selling and distribution costs		**(6,200)**	(3,464)
Administrative expenses		**(24,830)**	(15,619)
Finance costs	7	**(313)**	(198)
PROFIT BEFORE TAX	6	**15,946**	12,391
Tax	10	**(444)**	97
PROFIT FOR THE YEAR/PERIOD		**15,502**	12,488
Attributable to:			
Equity holders of the parent	11	**10,065**	11,297
Minority interests		**5,437**	1,191
		15,502	12,488
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
– Basic		**0.27 cents**	0.51 cents
– Diluted		**N/A**	N/A

Consolidated Balance Sheet

31 December 2005

	Notes	2005 HK$'000	2004 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**4,087**	3,989
Goodwill	15	**289,465**	279,449
Other intangible assets	16	**2,174**	1,840
Total non-current assets		**295,726**	285,278
CURRENT ASSETS			
Inventories	17	**2,863**	6,944
Trade receivables	18	**48,840**	38,375
Prepayments, deposits and other receivables	19	**8,800**	6,645
Tax recoverable		**–**	86
Cash and bank balances		**30,949**	16,459
Total current assets		**91,452**	68,509
CURRENT LIABILITIES			
Trade payables	20	**3,739**	2,010
Other payables and accruals	21	**10,123**	14,028
Due to an intermediate holding company	22	**12,181**	2,915
Tax payable		**245**	–
Total current liabilities		**26,288**	18,953
NET CURRENT ASSETS		**65,164**	49,556
Net assets		**360,890**	334,834
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	24	**38,426**	37,585
Reserves	26(a)	**309,495**	294,016
		347,921	331,601
Minority interests		**12,969**	3,233
Total equity		**360,890**	334,834

Wang Dong Bin
Director

Li Kang Ying
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2005

		Attributable to equity holders of the parent							
		Issued share capital	**Share premium account**	**Reserve funds**	**Exchange fluctuation reserve**	**Accumulated losses**	**Total**	**Minority interests**	**Total equity**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2004		6,930	71,821	60	–	(50,562)	28,249	2,801	31,050
Net profit for the period		–	–	–	–	11,297	11,297	1,191	12,488
Issue of shares	*24*	30,655	263,630	–	–	–	294,285	–	294,285
Share issue expenses	*24*	–	(2,230)	–	–	–	(2,230)	–	(2,230)
Acquisition of subsidiaries	*27*	–	–	–	–	–	–	2,051	2,051
Acquisition of additional interests in subsidiaries		–	–	–	–	–	–	(2,810)	(2,810)
At 31 December 2004 and 1 January 2005		37,585	333,221*	60*	–*	(39,265)*	331,601	3,233	334,834
Exchange realignment		–	–	–	1,385	–	1,385	173	1,558
Net profit for the year		–	–	–	–	10,065	10,065	5,437	15,502
Transfer to reserve funds		–	–	1,544	–	(1,544)	–	–	–
Issue of shares	*24*	841	4,039	–	–	–	4,880	–	4,880
Share issue expenses	*24*	–	(10)	–	–	–	(10)	–	(10)
Acquisition of a subsidiary	*27*	–	–	–	–	–	–	4,703	4,703
Dividends paid to minority shareholders		–	–	–	–	–	–	(577)	(577)
At 31 December 2005		38,426	337,250*	1,604*	1,385*	(30,744)*	347,921	12,969	360,890

* These reserve accounts comprise the reserves of HK$309,495,000 (2004: HK$294,016,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2005

	Notes	**Year ended 31 December 2005 HK$'000**	Period from 1 April 2004 to 31 December 2004 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**15,946**	12,391
Adjustments for:			
Bank interest income	5	**(106)**	(54)
Finance costs	7	**313**	198
Gain on disposal of items of property, plant and equipment	5	**(48)**	–
Amortisation of intangible assets	6	**206**	101
Depreciation	6	**1,328**	1,113
Operating profit before working capital changes		**17,639**	13,749
Decrease/(increase) in inventories		**4,081**	(4,400)
Increase in trade receivables		**(10,465)**	(16,476)
Decrease/(increase) in prepayments, deposits and other receivables		**(2,155)**	10,551
Increase in trade payables		**1,729**	167
Increase/(decrease) in other payables and accruals		**(3,923)**	827
Cash generated from operations		**6,906**	4,418
Interest paid		**(313)**	(198)
Mainland China tax paid		**(120)**	(86)
Net cash inflow from operating activities		**6,473**	4,134
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**106**	54
Proceeds from disposal of items of property, plant and equipment		**175**	–
Purchases of items of property, plant and equipment	13	**(1,503)**	(960)
Addition to intangible assets	16	**(481)**	(21)
Acquisition of additional interests in subsidiaries		**–**	(312)
Acquisition of subsidiaries	27	**(415)**	7,644
Net cash inflow/(outflow) from investing activities		**(2,118)**	6,405
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in amount due to an intermediate holding company		**9,266**	–
Dividends paid to minority shareholders		**(577)**	–
Decrease in amount due to minority shareholders		**–**	(1,034)
Share issue expenses	24	**(10)**	(2,230)
Net cash inflow/(outflow) from financing activities		**8,679**	(3,264)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**13,034**	7,275
Cash and cash equivalents at beginning of year/period		**16,459**	9,184
Effect of foreign exchange rate changes, net		**1,456**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		**30,949**	16,459
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**30,949**	16,459

Balance Sheet

31 December 2005

	Notes	2005 HK$'000	2004 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	14	**326,668**	322,749
CURRENT ASSETS			
Prepayments, deposits and other receivables	19	**1,375**	2,394
Cash and bank balances		**9**	10
Total current assets		**1,384**	2,404
CURRENT LIABILITIES			
Other payables and accruals	21	**1,204**	4,702
Due to an intermediate holding company	22	**12,181**	–
Total current liabilities		**13,385**	4,702
NET CURRENT LIABILITIES		**(12,001)**	(2,298)
Net assets		**314,667**	320,451
EQUITY			
Issued capital	24	**38,426**	37,585
Reserves	26(b)	**276,241**	282,866
Total equity		**314,667**	320,451

Wang Dong Bin
Director

Li Kang Ying
Director

1. CORPORATE INFORMATION

The Company is a limited company incorporated in the Cayman Islands. The principal place of business of the Company is located at M/F., Yardley Commercial Building, 3 Connaught Road West, Sheung Wan, Hong Kong.

During the year, the Group was principally engaged in the development and sale of computer software and the provision of system integration and related support services in mainland China.

In the opinion of the directors, the parent company of the Group is Beijing Development (Hong Kong) Limited and the ultimate holding company of the Group is Beijing Holdings Limited, both of which are incorporated in Hong Kong.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of a subsidiary during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

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

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 27, 32, 33, 37 and 39 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The impact of adopting the HKFRS 2 is summarised as follows:

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.4 "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 December 2004 but had not yet vested as at 1 January 2005, the adoption of HKFRS 2 has had no impact on the financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	20%
Furniture, fixtures and equipment	18% – 20%
Motor vehicles	10% – 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill) *(Continued)*

Amortisation is calculated on the straight-line basis to write off the cost of each intangible asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Internet platform	$33^1/_3$%
Trademarks	5%
Computer software	10% – 20%

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Financial assets

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets (applicable to the year ended 31 December 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Derecognition of financial assets (applicable to the year ended 31 December 2005)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets (applicable to the year ended 31 December 2005) *(Continued)*

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risk and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress, comprises direct materials, subcontracting charges and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards that were granted on or before 7 November 2002, or granted after 7 November 2002 but vested before 1 January 2005.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in the Mainland China are required to participate in a central pension scheme operated by the local municipal government. Contributions are made by the subsidiaries on a percentage of the participating employees' salaries and are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

(i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

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

(iii) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to net carrying amount of the financial asset.

3. SIGNIFICANT ACCOUNTING ESTIMATES

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 discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was HK$289,465,000 (2004: HK$279,449,000). More details are given in note 15.

4. SEGMENT INFORMATION

Segment information is not presented as the Group's sole business is the development and sale of computer software and the provision of system integration and related support services in the People's Republic of China (the "PRC").

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; and the value of services rendered during the year.

An analysis of revenue, other income and gains is as follows:

	Group	
	Year ended 31 December 2005	Period from 1 April 2004 to 31 December 2004
	HK$'000	*HK$'000*
Revenue		
Sale of computer software	**6,403**	5,969
Provision of software development and system integration services	**44,956**	40,789
Provision of technical support and maintenance services	**15,532**	4,981
	66,891	51,739
Other income and gains		
Bank interest income	**106**	54
Gain on disposal of items of property, plant and equipment	**48**	–
PRC tax subsidy	**4,717**	1,333
Others	**67**	1,191
	4,938	2,578

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

		Group	
			Period from
		Year ended	1 April 2004
		31 December	to 31 December
		2005	2004
	Notes	***HK$'000***	*HK$'000*
Cost of inventories sold		**18,558**	21,989
Cost of services provided		**5,982**	656
Depreciation	*13*	**1,328**	1,113
Amortisation of intangible assets*	*16*	**206**	101
Minimum lease payment under operating leases in respect of land and buildings		**1,419**	1,649
Auditors' remuneration		**743**	503
Employee benefits expense (including directors' remuneration *(note 8)*):			
Wages and salaries		**16,986**	9,254
Pension scheme contributions		**697**	578
		17,683	9,832
Foreign exchange differences, net		**61**	–

* The amortisation of intangible assets is included in "Selling and distribution costs" on the face of the consolidated income statement.

7. FINANCE COSTS

	Group	
		Period from
	Year ended	1 April 2004
	31 December	to 31 December
	2005	2004
	HK$'000	*HK$'000*
Interest on bank loans and other loans wholly repayable within five years	**313**	198

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group	
	Year ended 31 December 2005	Period from 1 April 2004 to 31 December 2004
	HK$'000	*HK$'000*
Fees	**420**	197
Other emoluments:		
Salaries, allowances and benefits in kind	**124**	1,348
Pension scheme contributions	**–**	14
	544	1,559

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Group	
	Year ended 31 December 2005	Period from 1 April 2004 to 31 December 2004
	HK$'000	*HK$'000*
Ms. Ma Yu Hua	**100**	–
Ms. Liang Ye Ping	**100**	–
Mr. Jiang Qi Ping	**100**	–
Mr. Wang Shi Yu	**–**	40
Mr. Cheng Shu Wing	**–**	67
	300	107

There were no other emoluments payable to the independent non-executive directors during the year (period ended 31 December 2004: Nil).

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2005				
Mr. Li Kang Ying	**–**	**62**	**–**	**62**
Mr. Ma Gary Ming Fai	**120**	**–**	**–**	**120**
Mr. Cao Wei	**–**	**62**	**–**	**62**
	120	**124**	**–**	**244**
2004				
Mr. Mak To Wai	–	341	5	346
Mr. Ma Gary Ming Fai	90	–	–	90
Mr. Ren Yi	–	165	3	168
Mr. Wu Meng Jie	–	104	3	107
Mr. Peng Wen Sheng	–	738	3	741
	90	1,348	14	1,452

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year did not include any director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the five non-director, highest paid employees for the year are listed below.

9. FIVE HIGHEST PAID EMPLOYEES *(Continued)*

In the prior year, the five highest paid individuals included four former executive directors whose emoluments before resignation are set out in note 8 above. Details of emoluments of these executive directors after resignation and the remaining one highest paid individual for the period from 1 April 2004 to 31 December 2004 are analysed below:

	Group	
		Period from
	Year ended	1 April 2004
	31 December	to 31 December
	2005	2004
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**1,553**	1,339
Pension scheme contributions	**96**	9
	1,649	1,348

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
		Period from
	Year ended	1 April 2004
	31 December	to 31 December
	2005	2004
Nil to HK$1,000,000	**5**	1

10. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (period ended 31 December 2004: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

In accordance with the relevant tax rules and regulations in the PRC, certain of the Company's PRC subsidiaries enjoy income tax exemptions and reductions. Certain PRC subsidiaries are subject to income tax rates ranging from 0% to 15%.

10. TAX *(Continued)*

	Group	
	Year ended 31 December 2005	Period from 1 April 2004 to 31 December 2004
	HK$'000	*HK$'000*
Group:		
Current – Hong Kong	**–**	–
Current – Elsewhere		
Charge for the year	**(252)**	–
Overprovision/(underprovision) in prior years	**(192)**	97
Total tax credit/(charge) for the year/period	**(444)**	97

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense/credit at the effective tax rates is as follows:

Group – 2005

	Hong Kong		**Mainland China**		**Total**	
	HK$'000	*%*	***HK$'000***	*%*	***HK$'000***	*%*
Profit/(loss) before tax	**(3,138)**		**19,084**		**15,946**	
Tax at the statutory tax rate	**(549)**	**17.5**	**6,298**	**33.0**	**5,749**	**36.1**
Lower tax rate for specific provinces or local authority	**–**		**(6,552)**		**(6,552)**	
Adjustments in respect of current tax of previous periods	**–**		**192**		**192**	
Income not subject to tax	**(1,023)**		**–**		**(1,023)**	
Expenses not deductible for tax	**1,572**		**25**		**1,597**	
Tax losses not recognised	**–**		**481**		**481**	
Tax charge at the Group's effective rate	**–**	**–**	**444**	**2.3**	**444**	**2.8**

10. TAX *(Continued)*

Group – 2004

	Hong Kong		Mainland China		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Profit/(loss) before tax	(2,964)		15,355		12,391	
Tax at the statutory tax rate	(519)	17.5	5,068	33.0	4,549	36.7
Lower tax rate for specific provinces or local authority	–		(5,161)		(5,161)	
Adjustments in respect of current tax of previous periods	–		(97)		(97)	
Income not subject to tax	(803)		–		(803)	
Expenses not deductible for tax	1,083		6		1,089	
Tax losses not recognised	239		87		326	
Tax credit at the Group's effective rate	–	–	(97)	(0.6)	(97)	(0.8)

11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net loss from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company was HK$10,654,000 (period ended 31 December 2004: profit of HK$304,000) (note 26(b)).

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the parent of HK$10,065,000 (period ended 31 December 2004: HK$11,297,000) and the weighted average number of 3,764,234,397 (period ended 31 December 2004: 2,231,313,416) ordinary shares in issue during the year.

Diluted earnings per share amounts for the year ended 31 December 2005 and period ended 31 December 2004 have not been disclosed as the share options outstanding during these years had an anti-dilutive effect on the basic earnings per share for the year/period.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
31 December 2005				
At 1 January 2005, net of accumulated depreciation	**386**	**2,039**	**1,564**	**3,989**
Additions	**–**	**1,066**	**437**	**1,503**
Disposals	**(26)**	**(2)**	**(99)**	**(127)**
Depreciation provided during the year	**(158)**	**(839)**	**(331)**	**(1,328)**
Exchange realignment	**11**	**13**	**26**	**50**
At 31 December 2005, net of accumulated depreciation	**213**	**2,277**	**1,597**	**4,087**
At 31 December 2005:				
Cost	**269**	**5,783**	**2,283**	**8,335**
Accumulated depreciation	**(56)**	**(3,506)**	**(686)**	**(4,248)**
Net carrying amount	**213**	**2,277**	**1,597**	**4,087**

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Group

	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
31 December 2004				
At 31 March 2004 and at 1 April 2004:				
Cost	328	3,164	1,351	4,843
Accumulated depreciation	(123)	(1,884)	(359)	(2,366)
Net carrying amount	205	1,280	992	2,477
At 1 April 2004, net of accumulated depreciation	205	1,280	992	2,477
Additions	264	185	511	960
Acquisition of subsidiaries *(note 27)*	–	1,384	281	1,665
Depreciation provided during the period	(83)	(810)	(220)	(1,113)
At 31 December 2004, net of accumulated depreciation	386	2,039	1,564	3,989
At 31 December 2004 and at 1 January 2005:				
Cost	592	4,733	2,143	7,468
Accumulated depreciation	(206)	(2,694)	(579)	(3,479)
Net carrying amount	386	2,039	1,564	3,989

14. INTERESTS IN SUBSIDIARIES

	Company 2005 HK$'000	2004 HK$'000
Unlisted shares, at cost	**318,860**	318,859
Due from subsidiaries *(Note (a))*	**49,879**	36,558
Due to a subsidiary *(Note (a))*	**–**	(590)
	368,739	354,827
Impairment *(Note (b))*	**(8,407)**	–
Provision against amounts due from subsidiaries	**(33,664)**	(32,078)
	326,668	322,749

Notes:

(a) The amounts due from/to subsidiaries are unsecured, interest-free and not repayable within one year from the balance sheet date. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

(b) During the year, management performed a review of the recoverable amount of investments in subsidiaries. Based on their review, the carrying amount of investment in a subsidiary was written down by HK$8,407,000 to zero at the year end. The recoverable amount was based on the fair value less costs to sell determined by reference to the net asset value of the subsidiary.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company 2005	2004	Principal activities
Surfing Platform Software International Limited*	British Virgin Islands/ Hong Kong	US$1,080,668	**100**	100	Investment holding
Snow Fair Company Limited* ("Snow Fair")	British Virgin Islands/ Hong Kong	US$100	**100**	100	Investment holding

14. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company 2005	2004	Principal activities
Wisdom Elite Holdings Limited* ("Wisdom Elite")	British Virgin Islands/ Hong Kong	US$100	**100**	100	Investment holding
Astoria Innovations Limited* ("Astoria")	British Virgin Islands/ Hong Kong	US$1,000	**68**	68	Investment holding
Go Good Holdings Limited*@	British Virgin Islands/ Hong Kong	US$100	**100**	–	Investment holding
Xteam Software (China) Co. Limited	PRC	US$3,000,000	**100**	100	Sale of computer software and provision of related services
Xteam Software (Hong Kong) Limited	Hong Kong	HK$100	**100**	100	Office management
Pantosoft International Limited	British Virgin Islands/ Hong Kong	US$100	**100**	100	Investment holding
Shanghai Pantosoft Company Limited	PRC	HK$10,000,000	**100**	100	Development and sale of computer software and provision of system integration and related services
Beijing Enterprises VST Software Technology Co., Ltd.	PRC	RMB2,000,000	**100**	100	Development and sale of computer software and provision of system integration and related services

14. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company 2005	2004	Principal activities
Beijing Enterprises Sanxing Information Technology Co., Ltd.	PRC	RMB3,000,000	**68**	68	Development and sale of computer software and provision of system integration and related services
Asren Holdings Limited[Δ] ("Asren")	British Virgin Islands/ Hong Kong	US$200	**51**	–	Establishing a PRC subsidiary

* Directly held by the Company
@ Set up during the year
Δ Acquired during the year *(note 27)*

15. GOODWILL

	Group 2005 HK$'000	2004 HK$'000
Cost and carrying amount:		
At beginning of year/period	**279,449**	14,813
Acquisition of subsidiaries *(note 27)*	**10,016**	252,721
Acquisition of additional interests in subsidiaries	**–**	11,915
At end of year/period	**289,465**	279,449

15. GOODWILL *(Continued)*

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units in terms of principal subsidiaries for impairment testing.

	Group	
	2005	2004
	HK$'000	*HK$'000*
Snow Fair *(note (i))*	**26,728**	26,728
Astoria and Wisdom Elite *(note (ii))*	**252,721**	252,721
Asren *(note (iii))*	**10,016**	–
Carrying amount of goodwill	**289,465**	279,449

Notes:

(i) The recoverable amount of the cash-generating unit is determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets covering a ten-year period approved by senior management. Cash flows beyond the first five-year period are extrapolated using a growth rate that is lower than the average growth rate for the industry in which the cash generating unit operates. The discount rate applied to the cash flow projections is 5%. Budgeted gross margins are based on both the historical gross margin and the expected growth rate of the market.

(ii) The recoverable amount of the cash-generating unit is determined based on a value in use calculation. To calculate this, cash flow projections are based on financial budgets covering a ten-year period approved by senior management. Cash flows beyond the first five-year period are extrapolated using a steady historical growth rate. The discount rate used for value in use calculations is 5%. Management determined the budgeted gross margins based on past performances and the expected growth rate of the market. The average growth rate used is consistent with the forecast of the information technology market.

(iii) The recoverable amount of the cash-generating unit is also determined based on a value in use calculation using cash flow projections based on financial budgets covering a three-year period approved by the senior management. The discount rate applied to the cash flow projection is 10%. The Group is the pioneer of such technology in the market and the Group determined the values based on the management's past experience in the information technology market and their expectations for the market development.

15. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Key assumptions were used in the value in use calculation of the abovesaid cash-generating units. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year, increased for expected efficiency improvements and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Raw materials/labour price inflation – The basis used to determine the value assigned to raw materials/labour price inflation is the forecast price indices during the budget year in the PRC. The values assigned to key assumptions are consistent with external information sources.

16. OTHER INTANGIBLE ASSETS

Group

	Internet platform *HK$'000*	Trademarks *HK$'000*	Computer software *HK$'000*	Total *HK$'000*
31 December 2005				
Cost at 1 January 2005, net of accumulated amortisation	–	1,802	38	1,840
Additions	–	–	481	481
Amortisation provided during the year	–	(120)	(86)	(206)
Exchange realignment	–	59	–	59
At 31 December 2005	–	1,741	433	2,174
At 31 December 2005:				
Cost	–	2,450	481	2,931
Accumulated amortisation	–	(709)	(48)	(757)
Net carrying amount	–	1,741	433	2,174

16. OTHER INTANGIBLE ASSETS *(Continued)*

	Internet platform *HK$'000*	Trademarks *HK$'000*	Computer software *HK$'000*	Total *HK$'000*
31 December 2004				
At 1 April 2004:				
Cost	3,255	2,371	16,823	22,449
Accumulated amortisation	(3,255)	(481)	(16,793)	(20,529)
Net carrying amount	–	1,890	30	1,920
Cost at 1 April 2004, net of accumulated amortisation	–	1,890	30	1,920
Additions	–	–	21	21
Amortisation provided during the period	–	(88)	(13)	(101)
At 31 December 2004	–	1,802	38	1,840
At 31 December 2004 and at 1 January 2005:				
Cost	3,255	2,371	16,844	22,470
Accumulated amortisation	(3,255)	(569)	(16,806)	(20,630)
Net carrying amount	–	1,802	38	1,840

17. INVENTORIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Materials	**2,863**	6,944

18. TRADE RECEIVABLES

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within 1 month	**36,149**	32,576
1 to 2 months	**656**	196
2 to 3 months	**307**	103
Over 3 months	**11,728**	5,500
	48,840	38,375

Generally, the Group has granted credit terms to its customers, ranging from 30 to 90 days. In certain cases, the Group would request payment in advance from the customers.

The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

Included in the Group's trade receivables are amounts due from the Group's fellow subsidiaries of HK$644,000 (2004: HK$2,528,000), which are repayable on similar credit terms to those offered to the major customers of the Group.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments	**256**	437	**126**	189
Deposits and other receivables	**5,775**	4,825	**–**	5
Dividends receivable	**–**	–	**1,249**	2,200
Due from fellow subsidiaries	**2,769**	1,383	**–**	–
	8,800	6,645	**1,375**	2,394

The balances with fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

20. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within 1 month	**2,760**	829
1 to 2 months	**3**	–
2 to 3 months	**31**	36
Over 3 months	**945**	1,145
	3,739	2,010

The trade payables are non-interest-bearing and are normally settled within 30 to 90 days.

21. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other payables	**6,937**	6,970	**–**	–
Accruals	**3,186**	7,058	**1,204**	4,702
	10,123	14,028	**1,204**	4,702

Other payables are non-interest-bearing and are normally settled within 90 days.

22. DUE TO AN INTERMEDIATE HOLDING COMPANY

Except for a balance of HK$8,937,000 which bears interest at a rate of 5% per annum, the amount due to an intermediate holding company is unsecured, interest-free and has no fixed terms of repayment.

23. DEFERRED TAX

The Group has tax losses arising in mainland China of HK$19,060,000 (2004: HK$15,853,000) that are available for a maximum of five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as the utilisation of which is uncertain.

As at 31 December 2005, there was no significant unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries.

24. SHARE CAPITAL

Shares

	2005	2004
	HK$'000	*HK$'000*
Authorised:		
10,000,000,000 ordinary shares of HK$0.01 each	**100,000**	100,000
Issued and fully paid:		
3,842,606,368 (2004: 3,758,471,752)		
ordinary shares of HK$0.01 each	**38,426**	37,585

On 7 December 2005, the Company issued 84,134,616 shares of HK$0.01 each at market price of HK$0.058 per share totaling HK$4,880,000 as part of the consideration for the acquisition of 51% equity interest in Asren *(note 27)*.

A summary of the movements in the Company's issued share capital during the year is as follows:

	Number of shares in issue	**Issued share capital**	**Share Premium account**	**Total**
		HK$'000	*HK$'000*	*HK$'000*
At 1 April 2004	693,007,938	6,930	60,954	67,884
Issue of shares for acquisition of subsidiaries	3,065,463,814	30,655	263,630	294,285
Share issue expenses	–	–	(2,230)	(2,230)
At 31 December 2004 and 1 January 2005	3,758,471,752	37,585	322,354	359,939
Issue of shares for acquisition of a subsidiary *(note 27)*	84,134,616	841	4,039	4,880
Share issue expenses	–	–	(10)	(10)
At 31 December 2005	**3,842,606,368**	**38,426**	**326,383**	**364,809**

Share options

Details of the Company's share option schemes are included in note 25 to the financial statements.

25. SHARE OPTION SCHEMES

(a) Pre-IPO Share Option Scheme

On 11 December 2001, the Pre-IPO Share Option Scheme adopted by the Company on 30 May 2001 was terminated. As a result, the Company can no longer grant any further options under the Pre-IPO Share Option Scheme. However, all options granted prior to the termination of the scheme will remain in full force and effect.

Details of the outstanding share options granted under the Pre-IPO Share Option Scheme as at 31 December 2005 are summarised as follows:

	Number of share options					Exercise
Name of participant	At 1 January 2005	Forfeited during the year	At 31 December 2005	Date of grant of share options*	Exercise period of share options	price of share options** HK$
Director						
Mr. Ma Gary Ming Fai	50,000,000	–	**50,000,000**	14 November 2001	11 June 2002 to 13 November 2011	0.266
Former director/employee						
Mr. Mak To Wai	30,000,000	(30,000,000)	**–**	14 November 2001	11 June 2002 to 13 November 2011	0.266
	80,000,000	(30,000,000)	**50,000,000**			

Notes to the reconciliation of share options outstanding during the year:

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

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

25. SHARE OPTION SCHEMES *(Continued)*

(a) Pre-IPO Share Option Scheme *(Continued)*

At the balance sheet date, the Company had 50,000,000 share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 1.3% of the Company's shares in issue as at that date. The exercise in full of the remaining share options under the Pre-IPO Share Option Scheme would, under the present capital structure of the Company, result in the issue of 50,000,000 additional ordinary shares of the Company and additional share capital of HK$500,000 and share premium of HK$12,800,000 (before issue expenses).

(b) Share option scheme

On 21 November 2001, the Company adopted a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's executive and non-executive directors, full-time employees of the Group, advisers and consultants of the Group. The Scheme became effective on 21 November 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all options granted and yet to be granted under the Scheme is currently limited to 30% of the shares of the Company in issue at any time. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each eligible participant in the Scheme in any 12-month period up to the date of the grant is limited to 1% of the aggregate number of issued share capital of the Company from time to time.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors at their discretion, and commences on the date upon which the options are deemed to be granted and accepted.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

25. SHARE OPTION SCHEMES *(Continued)*

(b) Share option scheme *(Continued)*

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options: At 1 January 2005	Forfeited during the year	At 31 December 2005	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$
Former directors						
Mr. Cheng Shu Wing	1,000,000	(1,000,000)	–	19 December 2003	19 December 2003 to 18 December 2013	0.14
Mr. Wang Shi Yu	1,000,000	(1,000,000)	–	19 December 2003	19 December 2003 to 18 December 2013	0.14
Other employees	28,000,000	(14,500,000)	**13,500,000**	19 December 2003	19 December 2003 to 18 December 2013	0.14
Advisers and consultants	33,000,000	–	**33,000,000**	19 December 2003	19 December 2003 to 18 December 2013	0.14
	63,000,000	(16,500,000)	**46,500,000**			

Notes to the reconciliation of share options outstanding during the year:

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

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

No share options were exercised during the year.

At the balance sheet date, the Company had 46,500,000 share options outstanding under the Scheme, which represented approximately 1.2% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 46,500,000 additional ordinary shares of the Company and additional share capital of HK$465,000 and share premium of HK$6,045,000 (before issue expenses).

26. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current year and prior period are presented in the consolidated statement of changes in equity on page 25 of the financial statements.

Pursuant to the relevant laws and regulations in the PRC, a portion of the profits of the Group's subsidiaries which are established in the PRC has been transferred to reserve funds which are restricted as to use.

(b) Company

	Share premium account	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2004	60,954	(39,792)	21,162
Issue of shares	263,630	–	263,630
Share issue expenses	(2,230)	–	(2,230)
Net profit for the period	–	304	304
At 31 December 2004 and 1 January 2005	322,354	(39,488)	282,866
Issue of shares	4,039	–	4,039
Share issue expenses	(10)	–	(10)
Net loss for the year	–	(10,654)	(10,654)
At 31 December 2005	**326,383**	**(50,142)**	**276,241**

27. BUSINESS COMBINATION

On 7 December 2005, the Group acquired from independent third parties a 51% equity interest in Asren. The purchase consideration for the acquisition was in the form of 84,134,616 new shares of the Company at market price of HK$0.058 per share on 7 December 2005 and promissory note amounting to HK$9,615,000 issued by the Group to Asren.

27. BUSINESS COMBINATION *(Continued)*

The fair values of the identifiable assets and liabilities of Asren acquired as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition and carrying amount	
	2005	2004
	HK$'000	*HK$'000*
Property, plant and equipment	**–**	1,665
Trade receivables	**–**	15,172
Prepayments, deposits and other receivables	**9,615**	12,539
Due from related companies	**–**	2,490
Inventories	**–**	797
Cash and bank balances	**–**	7,644
Trade payables	**–**	(528)
Due to related companies	**–**	(2,915)
Other payables and accruals	**(18)**	(6,628)
Minority interests	**(4,703)**	(2,051)
	4,894	28,185
Goodwill on acquisition *(note 15)*	**10,016**	252,721
	14,910	280,906
Consideration:		
Promissory note	**9,615**	–
Cost associated with the acquisition	**415**	–
Issued of shares *(note 24)*	**4,880**	280,906
	14,910	280,906

An analysis of net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of the subsidiaries is as follows:

	2005	2004
	HK$'000	*HK$'000*
Cash paid	**(415)**	–
Cash and bank balances acquired	**–**	7,644
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	**(415)**	7,644

The subsidiary acquired was in the development stage during the year and no income or expense was incurred in the year.

28. OPERATING LEASE COMMITMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from two to three years.

At 31 December 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**2,724**	825
In the second to fifth years, inclusive	**1,047**	–
	3,771	825

29. RELATED PARTY TRANSACTIONS

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

	Notes	**Year ended 31 December 2005** ***HK$'000***	Period from 1 April 2004 to 31 December 2004 *HK$'000*
Sales to a fellow subsidiary	*(i)*	**234**	2,964
Technical service fee payable to a fellow subsidiary	*(ii)*	**1,132**	–
Interest payable to an intermediate holding company	*(iii)*	**313**	–
Service fee income receivable from a fellow subsidiary	*(iv)*	**292**	–

Notes:

(i) The sales to a fellow subsidiary were made according to similar prices and conditions offered to the major customers of the Group.

(ii) The service fee was determined with reference to fees charged to third parties by the fellow subsidiary.

(iii) The interest was charged at a rate of 5% per annum on the outstanding loan principal.

(iv) The service fee was determined with reference to fees charged to third parties by the Group.

29. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Compensation of key management personnel of the Group:

	Year ended 31 December 2005	Period from 1 April 2004 to 31 December 2004
	HK$'000	*HK$'000*
Short term employee benefits	**2,385**	3,051
Post-employment benefits	**106**	39
Total compensation paid to key management personnel	**2,491**	3,090

Further details of directors' emoluments are included in note 8 to the financial statements.

The related party transaction in respect of item (a)(ii) above also constitute continuing connected transaction as defined in Chapter 20 of the Listing Rules.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments mainly comprise cash and short term deposits and interest-bearing loans. These financial instruments are used for the Group's working capital. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

Most of the Group's payables and borrowings are denominated in Hong Kong dollars and RMB and sales of the Group are mainly denominated in RMB. As the exchange rates of RMB against Hong Kong dollars were relatively stable during the year, the Group's exposure to fluctuations in exchange rates is considered minimal and no financial instruments have been used for hedging purposes.

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

Credit risk

The Group trades only with recognised and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The Group places its cash deposits with major international banks in Hong Kong and state-owned banks in Mainland China. This investment policy limits the Group's exposure to concentrations of credit risk.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of loan from an intermediate holding company.

31. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of new HKFRSs during the current year and in order to enhance better disclosures, the presentation of certain items and balances in the financial statements have been revised. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 March 2006.

Five Year Financial Summary

31 December 2005

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated as appropriate, is set out below.

RESULTS	**1 January 2005 to 31 December 2005** ***HK$'000***	1 April 2004 to 31 December 2004 *HK$'000*	1 April 2003 to 31 March 2004 *HK$'000*	1 April 2002 to 31 March 2003 *HK$'000*	1 April 2001 to 31 March 2002 *HK$'000*
REVENUE	**66,891**	51,739	26,823	26,694	21,835
PROFIT/(LOSS) BEFORE TAX	**15,946**	12,391	(31,980)	(10,327)	3,478
Tax	**(444)**	97	(318)	(117)	–
PROFIT/(LOSS) FOR THE YEAR/PERIOD	**15,502**	12,488	(32,298)	(10,444)	3,478
Attributable to:					
Equity holders of the parent	**10,065**	11,297	(33,722)	(10,589)	3,478
Minority interests	**5,437**	1,191	1,424	145	–
	15,502	12,488	(32,298)	(10,444)	3,478
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	**387,178**	353,787	40,294	67,448	47,940
TOTAL LIABILITIES	**(26,288)**	(18,953)	(9,244)	(17,567)	(12,380)
MINORITY INTERESTS	**(12,969)**	(3,233)	(2,801)	(1,377)	–
	347,921	331,601	28,249	48,504	35,560