藍帆科技控股有限公司*

LINEFAN TECHNOLOGY HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8166)

Annual Report 2006

*For Identification Purpose Only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspaper. 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.

This report, for which the directors (the "Directors") of Linefan Technology Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange Hong Kong Limited (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: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) 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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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Wang Yong *(Chairman)*
Zhu Guang Bo

Independent Non-Executive Directors

Chan, Peter Yat Tung
Feng Jue Min
Zhang Gong

COMPLIANCE OFFICER

Wang Yong

COMPANY SECRETARY

Ho Suet Man Stella *FCCA, CPA*

QUALIFIED ACCOUNTANT

Ho Suet Man Stella *FCCA, CPA*

AUDIT COMMITTEE

Chan, Peter Yat Tung *(Chairman)*
Feng Jue Min
Zhang Gong

AUDITOR

Horwath Hong Kong CPA Limited

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

1901, Henan Building
90 Jaffe Road
Wanchai
Hong Kong

REGISTERED OFFICE

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

HONG KONG SHARE REGISTRAR

Tengis Limited
Level 28
Three Pacific Place
1 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
China Construction Bank (Asia) Limited
Hang Seng Bank Limited

GEM STOCK CODE

8166

WEBSITE ADDRESS

www.linefan.com.cn

During 2006, Linefan Technology Holdings Limited, together with its subsidiaries (the "Group") promptly and timely reacted to the swiftly changing market conditions through a highly flexible contingency mechanism. On top of the increasingly diversified development of the telecom value-added services, cooperative relationships were formed with several partners. Proven achievements were attained in terms of market promotion.

BUSINESS REVIEW

Formation of close working partners' relationships for fostering further business expansion

While a very stable and smooth relationship has been established between the Group and China Unicom, new potential partners are always sought by the Company. During the second half of the year, the Company has joined forces with other mobile telecom service providers for collaboratively developing mobile telecom value-added services. IVR radio value-added services were provided for the radio networks in various regions of China.

Luring vigourous growth for seizing a firm foothold in different markets

To safeguard and enhance our market shares, the Group further established branches in Fujian, Shanghai, Guangzhou, Xi'an and Chongqing in addition to the existing Shandong, Heilongjiang and Jilin branch offices. The Group also filed a registration with the respective local telecommunication bureau in order to let the Company to market its value-added business to have a greater coverage.

OUTLOOK

Forging towards future, the business segment of mobile value-added services is set to embedded with promising prospects. Riding on our existing regulated operations, the pace of business innovations will be speeded up with a vision to explore into a new portfolio of enriched business lines, covering from electronics government administration, information-based agriculture, information-based applied enterprises to remote message services.

At the present, the development of the Company's mobile voice search services has proceeded to completion. The search technologies are intended to be fully extended to wider personalized applications so as to cover corporate commercial applications.

In the coming year, the Company will deliver continued efforts in bringing the greatest earning and profit growth at a low cost structure.

Wang Yong
Chairman

Hong Kong, 23 March 2007

Biographical Details of the Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wang Yong (王勇), aged 36, was appointed as the executive director of the Company on 28 May 2004. Mr. Wang is responsible for the overall strategic development of the Group. Mr. Wang holds an executive master degree in business administration and a bachelor degree in sports medicine. Mr. Wang had served as the general manager of the Beijing subsidiary of the China Scholars Group Company Limited (神州學人集團股份有限公司北京分公司), a company listed on the Shenzhen Stock Exchange in the People's Republic of China (the "PRC"); assistant to president of China HuaRui Investment and Management Company Limited (中國華瑞投資管理有限公司); vice president of GuoZhong Investment and Management Company Limited (國眾投資管理有限公司). Mr. Wang is currently the director and president of China Scholars Group Company Limited (神州學人集團股份有限公司), a company listed on the Shenzhen Stock Exchange in the PRC.

Mr. Zhu Guang Bo (祝廣波), aged 40, is the executive director of the Company. Mr. Zhu joined the Group in January 2004 and was subsequently appointed as Director in March 2004. Mr. Zhu holds a bachelor's degree in automatic control studies and a master's degree in business administration. Before joining the Group, Mr. Zhu was an officer sitting on the Education Commission of the People's Republic of China. Currently, Mr. Zhu is also serving as the chairman of an information technology company in the PRC.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Doctor Chan, Peter Yat Tung (陳日東博士), aged 56, was appointed as the independent non-executive director and the chairman of the audit committee of the Company in November 2002. Doctor Chan holds a bachelor of science degree from the University of Miami, Florida, USA, and a doctor degree from the Loyola Law School, Los Angeles, USA. Doctor Chan had served in the Law Offices of Jeffery Winter (Lawyer), the University of International Business and Economics (Visiting Professor), the King & Wood Law Offices (Lawyers, Partner). Doctor Chan was also the member of the American Bar Association, the California Bar Association and the Phi Delta Phi member.

Mr. Zhang Gong (張工), aged 38, was appointed as an independent non-executive director and member of audit committee of the Company in October 2004. Mr. Zhang is a member of The Chinese Institute of Certified Public Accountants. Mr. Zhang holds an executive master's degree in business administration and a bachelor's degree in economics. Mr. Zhang has over 15 years experience in auditing and accounting and is currently the senior vice president and financial controller in a risk management company in the People's Republic of China.

Mr. Feng Jue Min (馮覺民), aged 43, was appointed as an independent non-executive director and a member of audit committee of the Company in May 2004. Mr. Feng obtained an executive master's degree in business administration from the Guanghua School of Management in Peking University and a bachelor's degree in economics from Peking University. Mr. Feng is a senior economist and currently the general manager of China Great Wall Finance Company (北京長城財務公司) since October 2000.

SENIOR MANAGEMENT

Ms. Ma Gui Fang (馬桂芳), aged 41, joined the Group in March 2002, is the general manager of Beijing subsidiary of the Group and the ex-director of the Company. Ms. Ma holds a bachelor degree in Information Engineering from Chengdu University of Science and Technology, and a master degree in business administration from Dalian University of Technology. Ms. Ma has many years in business development and enterprise management.

FINANCIAL REVIEW

For the year ended 31 December 2006, the Group's turnover decreased by 21.07% to approximately HK$4,788,000 from approximately HK$6,066,000 because of keen market competition.

Cost of sales for the year under review decreased to approximately HK$2,329,000 from approximately HK$2,778,000 last year. The decrease was in line with the decrease in turnover during the year.

Distribution costs for the year under review decreased to approximately HK$1,617,000 from approximately HK$4,071,000 last year, representing a decrease of 60.28%. The decrease was mainly due to a decrease in subcontracting cost and marketing expenses.

Administrative expenses for the year under review decreased to HK$7,660,000 from approximately HK$13,556,000 last year, representing a decrease of 43.49%. The decrease in administrative expenses was mainly attributable to certain assets fully depreciated, no development of software and adoption of cost control measure.

As a result, the Group recorded a loss attributable to shareholders for the amount of approximately HK$4,972,000 as compared to the loss attributable to shareholders of approximately HK$13,525,000 last year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group financed its business operations with internally generated cash flows and unsecured loan. As at 31 December 2006, the Group's cash and cash equivalents balance was approximately HK$833,000 (2005: HK$2,014,000).

The shareholders' funds of the Group amounted to approximately HK$28,237,000 (2005: HK$33,252,000). Current assets and current liabilities amounted to approximately HK$1,863,000 (2005: HK$4,420,000) and HK$4,474,000 (2005: HK$3,661,000) respectively as at 31 December 2006.

GEARING RATIO

The Group did not have any long-term debts and its gearing ratio is zero as at 31 December 2006.

BUSINESS REVIEW

Currently, the Telecommunication value-added business in the PRC is developing rapidly. The value-added service subscriber base of telecommunication providers is experiencing steady growth; the proportion of value-added service subscribers over the number of subscribers is also increasing steadily.

In 2006, base on the established business foundation, the Company further strengthened the stable business development with China Unicom. The new co-operation project the Company had been keenly explored with China Unicom has received《中華人民共和國短消息類服務接入代碼使用證書》(The Short Message Service Access Coding Certificate of the People's Republic of China) issued by the Ministry of Information Industry of the PRC. The short message service access coding number is 10669068.

To ensure persistent business development nationwide and over various regions, the Group further established branches in Fujian, Shanghai, Guangzhou, Xi'an and Chongqing in addition to the existing Shandong, Heilongjiang and Jilin branch offices. The Group also filed a registration with the respective local telecommunication bureau in order to let the Company to market its value-added business to have a greater coverage.

OUTLOOK

Under the continual expansion of the value-added business, market competition has tightened. After a few years of development, many value-added business providers have been eliminated. Meanwhile, market patterns of each business sector have gradually formulated. The value-added business platform has been growing towards professionalism with demanding quality of service.

With the extensive application of value-added business, in the coming year, the Company will explore into possible leading business fields, accelerate faster pace for business innovation and develop a stronger and advanced market with regard to e-government administration, rural informatization, enterprises informatization and distanced message service. This business sector, which correlates to domestic economy and social development, is expected to gain continual momentums in future.

SEGMENTAL INFORMATION

During the year, voice portal gateway facilities in communication and voice portal application software accounted for 100% of turnover of the Group (2005: 100%). There were no sales of KM products during the year and last year. On the other hand, the Group's turnover all derived from China. The details are set out in note 6 to the financial statements.

EMPLOYEES

As at 31 December 2006, the Group had 46 (31 December 2005: 47) full time employees.

The Group remunerates its employees mainly based on individual expertise and performance. Apart from the basic remuneration, share options may be granted to eligible employees by reference to the Group's performance as well as individual contribution. Other benefits include retirement schemes.

The staff costs, including directors' remuneration, of the Group for the year ended 31 December 2006 totalled approximately HK$1,963,000 (2005: HK$2,717,000), representing a decrease of 27.75%. The major reason is tightened cost control of the Company.

CAPITAL STRUCTURE

On 1 April 2005, a share consolidation was effected that every ten shares of issued and unissued shares of the Company's share capital were consolidated into one consolidated share. The nominal value of the share capital of the Company increased from HK$0.01 to HK$0.1 each. On 3 May 2005, the Company issued 78,533,230 shares of HK$0.1 each for one rights share for every two consolidated shares. As a result, the total issued shares of the Company increased to 235,599,690.

SIGNIFICANT INVESTMENTS

As at 31 December 2006, the Group did not have any significant investments.

MATERIAL ACQUISITIONS AND DISPOSALS/FUTURE PLANS FOR MATERIAL INVESTMENTS

There had been no material acquisitions and disposals during the year. At present, the Company and the Group have no plans for material investments or capital assets.

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

There was no charge on the Group's assets and no significant contingent liabilities as at 31 December 2006.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

All of the Group's assets, liabilities and transaction are denominated either in Hong Kong dollars (HK$) or Renminbi (RMB). As the exchange rate of HK$ against RMB has been stable for the year under review, the Directors do not consider that the Group is exposed to any material foreign currency exchange risk. Therefore, no hedging or other alternatives have been implemented.

The directors of the company are pleased to present the annual report and the audited financial statements for the year ended 31 December 2006.

CORPORATE REORGANISATION AND LISTING ON THE GROWTH ENTERPRISE MARKET

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 30 November 2000. Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the group structure in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the group (the "Group") upon the completion of the Group Reorganisation on 24 January 2002.

Details of the Group Reorganisation are set out in the prospectus issued by the Company dated 28 January 2002.

The shares of the Company have been listed on the GEM of the Stock Exchange since 5 February 2002.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 16 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 16.

The directors of the Company do not recommend the payment of any dividend in respect of the year ended 31 December 2006 (2005: Nil).

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 49 and page 50 in the annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The largest and the five largest customers account for approximately 100% and approximately 100% of the Group's turnover, respectively, and the largest and the five largest suppliers account for approximately 15% and 39% of the Group's cost of sales respectively for the year ended 31 December 2006. None of the directors, their associates or shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) has any interest in the customers or suppliers disclosed above.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 23 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group are set out in note 24 to the financial statements and the consolidated statement of changes in equity of the Group on page 19 respectively.

SHARE OPTIONS

On 24 January 2002, the share option scheme of the Company was approved pursuant to a written resolution of the Company (the "Share Option Scheme"). The principal terms of which are set out in the section headed "Share Option Scheme" in the prospectus. A total of 185,809,000 share options which were all made to various employees were granted since adoption of the Share Option Scheme. An aggregate of 92,909,000 options have been exercised and 92,900,000 options have been lapsed. No share options has been granted by the Company during the year.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

Executive directors:

Wang Yong
Zhu Guang Bo
Ma Gui Fang (resigned on 1 July 2006)

Independent non-executive directors:

Chan, Peter Yat Tung
Feng Jue Min
Zhang Gong

In accordance with article 87 of the Company's articles of association, Mr. Wang Yong and Mr. Zhang Gong will retire by rotation and will offer themselves for re-election at the forthcoming annual general meeting.

Details of the appointments of the independent non-executive directors are set out in the Corporate Governance Report.

The Company confirms that it has received from each of its independent non-executive directors a confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers the independent non-executive directors to be independent.

Each of the executive directors has entered into a service agreement with the Company for an initial term of three years and which will continue thereafter until terminated by either party by giving to the other not less than three months' advance written notice of termination.

Other than as disclosed above, none of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the directors of the Company and the five highest paid individuals of the Group are set out in notes 8 and 9 to the financial statements, respectively.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the paragraph headed "Directors' and chief executive's interests in securities" below, 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 directors or their respective spouses or children under 18 years of age, nor were any such rights exercised by them, nor was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

DIRECTORS' AND CHIEF EXECUTIVE's INTERESTS IN SECURITIES

As at 31 December 2006, the interests and short positions of the directors and the chief executive of the Company in the shares, and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests of short positions which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by the directors were as follows:

Long position in ordinary shares of the Company:

	No of shares held			
Name of director or chief executive	Personal interests	Family interests	Corporate interests	Other interests
Mr Zhu Guang Bo	–	–	30,660,000 (Note 1)	–

Note:

1. These shares are registered in the name of World Develop Limited, which is wholly and beneficially owned by Mr Zhu Guang Bo.

Save as disclosed above, as at 31 December 2006, none of the directors have any interests and short positions in the shares and underlying shares of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which would have to notify to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests of short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules.

DIRECTORS' INTEREST IN CONTRACTS

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the following persons had an interest or short position in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of other members of the Group.

Name	Capacity	No of shares	Approximate percentage of holding
Ms Lu Wen Bin	Beneficial owner	44,533,911	18.90%
World Develop Limited (Note 1)	Beneficial owner	30,660,000	13.01%
Mr Zhu Guang Bo (Notes 1 and 2)	Held by controlled corporation	30,660,000	13.01%

Notes:

1. World Develop Limited ("WDL") is a company incorporated in the British Virgin Islands and is wholly and beneficially owned by Mr Zhu Guang Bo.

2. The shares are registered in the name of WDL, and Mr Zhu Guang Bo is the executive director of the Company.

Save as disclosed above, as at 31 December 2006, there was no person (other than the directors and chief executive of the Company whose interests are set out under the paragraph headed "Directors' and chief executive's interests in securities" above) had an interest or short position in the shares and underlying share of the Company or any of its associated corporations as recorded in the register to be kept under Section 336 of the SFO or was directly or indirectly interested in 5% or more of the issued share capital of the Company.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

CONNECTED AND RELATED PARTY TRANSACTIONS

During the year, the Company was granted a loan of HK$2,000,000 by a director of a subsidiary of the Company. The loan is unsecured, non interest bearing and has no fixed repayment terms.

COMPETING INTERESTS

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) had an interest in a business which causes or may cause any significant competition with the business of the Group.

RETIREMENT BENEFITS SCHEMES

Details of the retirement benefits schemes are set out in note 29 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association although there is no restriction against such under the laws in the Cayman Islands.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 12 to 14 of the annual report.

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint the retiring auditor, Horwath Hong Kong CPA Limited.

By Order of the Board
Wang Yong
Chairman

Hong Kong, 23 March 2007

Corporate Governance Report

INTRODUCTION

The Company has complied with all the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules during the period under review subject to the deviations as disclosed in this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code for dealing in securities of the Company by the directors. Having made specific enquiry of all directors, the Company was not aware of any non-compliance with the required standard as set out in the code of conduct regarding securities transactions by the directors throughout the year ended 31 December 2006.

BOARD OF DIRECTORS

The Board comprises five directors, of whom two are executive directors and three are independent non-executive directors.

Each of the independent non-executive directors has entered into a service contract with the Company for a term of one year and is subject to termination by either party giving not less than one month's prior written notice to the other.

The Board considers that all of the independent non-executive directors are independent and has received from each of them the annual confirmation of independence required by the GEM Listing Rules.

The Board is responsible to the approval and monitoring of the Group's overall strategies and policies; approval of business plans; evaluating the performance of the Group and oversight of management. The Board focuses on overall strategies and policies with particular attention paid to the growth and financial performance of the Group.

The Board delegates day-to-day operations of the Group to executive directors and senior management, while reserving certain key matters for its approval. Decisions of the Board are communicated to the management through executive directors who have attended at Board meetings.

The Board members for the year ended 31 December 2006 were:

Chairman

Mr. Wang Yong

Executive directors

Mr. Zhu Guang Bo
Ms. Ma Gui Fang (resigned on 1 July 2006)

Independent non-executive directors

Mr. Chan Peter Yat Tung
Mr. Feng Jue Min
Mr. Zhang Gong

The Board held a board meeting for each quarter. Details of the attendance of the Board are as follows:

Directors	**Attendance**
Mr. Wang Yong	4/4
Mr. Zhu Guang Bo	4/4
Ms. Ma Gui Fang	2/4
Mr. Chan Peter Yat Tung	4/4
Mr. Feng Jue Min	4/4
Mr. Zhang Gong	4/4

CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

Mr. Wang Yong assumes the role of both the chairman and the chief executive officer of the Company. While serving as the chairman of the Group, Mr. Wang leads the Board and is responsible for the proceedings and workings of the Board. He ensures that the Board acts in the best interests of the Group and the Board functions effectively and that all key and appropriate issues are properly briefed and discussed by the Board.

The role of chairman and chief executive officer of the Group rest on the same individual which deviates from the code provision in the CG Code of not having a clear division of responsibilities. The Board is of the view that this has not compromised accountability and independent decision making because the independent non-executive directors made up of half of the board, audit committee composed exclusively of independent non-executive directors and the independent directors have free and direct access to the Company's external auditors and independent professional advice when considered necessary.

The Board is of the view that it is in the best interests of the Group to have an executive chairman so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is most capable to guide discussions and brief the Board in a timely manner on pertinent issues and developments to facilitate open dialogue between the Board and the management.

REMUNERATION OF DIRECTORS

The remuneration committee is established and comprising three independent non-executive directors, namely Mr. Chan Peter Yat Tung, Mr. Feng Jue Min and Mr. Zhang Gong. Mr. Feng Jue Min is the Chairman of the remuneration committee.

The role and function of the remuneration committee includes 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 2007.

NOMINATION OF DIRECTORS

The nomination committee is established and comprising three independent non-executive directors, namely Mr. Chan Peter Yat Tung, Mr. Feng Jue Min and Mr. Zhang Gong. Mr. Zhang Gong is the Chairman of the nomination committee.

The role and function of the nomination committee includes the appointment and removal of directors. The nomination committee considers the past performance, qualification, general market conditions and the Company's articles of association in selecting and recommending candidates for directorship. During the year, no meeting was held and a meeting of the nomination committee will be convened in 2007.

All the existing directors shall be recommended to be retained by the Company. Under code provision A.4.2 of the Corporate Governance Practices and in accordance with the Company's articles of association, every director should be subject to retirement by rotation at least once every three years. Mr. Wang Yong and Mr. Zhang Gong will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

AUDITORS' REMUNERATION

An amount of approximately HK$0.4 million (2005: HK$0.14 million) was charged to the Group's income statement for the year ended 31 December 2006. There was no significant non-audit service assignment undertaken by the auditors during the year.

AUDIT COMMITTEE

The Company established an audit committee on 31 July 2001 with written terms of reference in compliance with Rules 5.28 to 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 control system of the Group. The audit committee currently comprises Mr. Chan Peter Yat Tung, Mr. Feng Jue Min and Mr. Zhang Gong who are the independent non-executive directors of the Company. The chairman of the audit committee is Mr Chan Peter Yat Tung.

The audit committee held four meetings in 2006, which were attended by all members. The Group's unaudited quarterly and interim results and annual audited results during the year ended 31 December 2006 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.

Horwath

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TO THE SHAREHOLDERS OF LINEFAN TECHNOLOGY HOLDINGS LIMITED (藍帆科技控股有限公司)

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Linefan Technology Holdings Limited (the "Company") set out on pages 16 to 48, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the loss and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without qualifying our opinion, we draw attention to Note 3(b)(iii) to the financial statements which indicates that the Group incurred consolidated loss of approximately HK$4,972,000 during the year ended 31 December 2006 and, as of that date, the Group reported consolidated net current liabilities of approximately HK$2,611,000. These conditions indicate the existence of a material uncertainty which may cast doubt on the Group's ability to continue as a going concern. The financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of a substantial shareholder who has agreed to provide funds to finance the working capital requirement of the Group.

HORWATH HONG KONG CPA LIMITED
Certified Public Accountants
Hong Kong, 23 March 2007

Wei Min, Eileen Chan
Practising Certificate number P03036

Consolidated Income Statement

For the year ended 31 December 2006 (Expressed in Hong Kong dollars)

	Note	2006 $'000	2005 $'000
Revenue	5	4,788	6,066
Cost of sales		(2,329)	(2,778)
Gross profit		2,459	3,288
Other revenue	5	612	265
Distribution costs		(1,617)	(4,071)
Administrative expenses		(7,660)	(13,556)
Operating loss		(6,206)	(14,074)
Interest on bank borrowings		–	(1)
Loss before taxation	7	(6,206)	(14,075)
Income tax	10	–	–
Loss for the year		(6,206)	(14,075)
Attributable to:			
Equity holders of the Company	11	(4,972)	(13,525)
Minority interest		(1,234)	(550)
		(6,206)	(14,075)
Loss per share			
Basic (HK cents)	13	(2.11)	(8.12)
Diluted (HK cents)		N/A	N/A

The accompanying notes form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2006 (Expressed in Hong Kong dollars)

	Note	2006 $'000	2005 $'000
Assets and liabilities			
Non-current assets			
Property, plant and equipment	14	5,074	11,900
Intangible assets	15	536	1,337
Goodwill	17	22,847	22,777
Available-for-sale investment	18	2,391	–
		30,848	36,014
Current assets			
Inventories	19	–	11
Trade receivables	20	681	1,578
Other receivables, deposits and prepayments		349	817
Cash and cash equivalents	21	833	2,014
		1,863	4,420
Current liabilities			
Trade payables	22	842	1,795
Other payables and accruals		1,632	1,866
Unsecured loan	27(a)	2,000	–
		4,474	3,661
Net current (liabilities)/assets		(2,611)	759
Net assets		28,237	36,773
Equity			
Share capital	23	23,560	23,560
Reserves		4,677	9,692
Equity attributable to equity holders of the Company		28,237	33,252
Minority interest		–	3,521
Total equity		28,237	36,773

These financial statements were approved and authorised for issue by the board of directors on 23 March 2007

Wang Yong
Director

Zhu Guang Bo
Director

The accompanying notes form part of these financial statements.

Balance Sheet

At 31 December 2006 (Expressed in Hong Kong dollars)

	Note	2006 $'000	2005 $'000
Assets and liabilities			
Non-current assets			
Investments in subsidiaries	16	34,100	32,844
Current assets			
Other receivables, deposits and prepayments		37	85
Cash and cash equivalents	21	6	7
		43	92
Current liabilities			
Accruals		449	341
Unsecured loan	27(a)	2,000	–
		2,449	341
Net current liabilities		(2,406)	(249)
Net assets		31,694	32,595
Equity			
Share capital	23	23,560	23,560
Reserves	24	8,134	9,035
Total equity		31,694	32,595

These financial statements were approved and authorised for issue by the board of directors on 23 March 2007

Wang Yong
Director

Zhu Guang Bo
Director

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006 (Expressed in Hong Kong dollars)

	Share capital $'000 (note 23)	Share premium $'000	Capital reserve $'000 (note 24)	Special reserve $'000 (note 24)	PRC statutory reserve $'000 (note 24)	Exchange reserve $'000	Accumu-lated losses $'000	Attributable to equity holders of the Company $'000	Minority interest $'000	Total $'000
At 31 December 2004	15,707	55,116	3,970	3,324	3,029	33	(41,481)	39,698	4,002	43,700
Rights issue	7,853	–	–	–	–	–	–	7,853	–	7,853
Rights issue expenses	–	(657)	–	–	–	–	–	(657)	–	(657)
Exchange difference arising on translation of PRC operations	–	–	–	–	–	(117)	–	(117)	69	(48)
Loss for the year	–	–	–	–	–	–	(13,525)	(13,525)	(550)	(14,075)
At 31 December 2005	23,560	54,459	3,970	3,324	3,029	(84)	(55,006)	33,252	3,521	36,773
Elimination arising on change of status of a subsidiary	–	–	–	–	–	–	–	–	(2,287)	(2,287)
Exchange difference arising on translation of PRC operations	–	–	–	–	–	(43)	–	(43)	–	(43)
Loss for the year	–	–	–	–	–	–	(4,972)	(4,972)	(1,234)	(6,206)
At 31 December 2006	23,560	54,459	3,970	3,324	3,029	(127)	(59,978)	28,237	–	28,237

The accompanying notes form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2006 (Expressed in Hong Kong dollars)

	Note	2006 $'000	2005 $'000
Operating activities			
Operating loss		(6,206)	(14,074)
Adjustment for:			
Allowance for bad and doubtful debts		4	344
Depreciation		2,940	4,443
Amortisation of intangible assets		804	1,017
Interest income		–	(12)
Loss on disposal of property, plant and equipment		–	4
Property, plant an equipment written off		6	–
Operating cash flows before working capital changes		(2,452)	(8,278)
Decrease/(increase) in inventories		11	(4)
Decrease in trade receivables		705	407
(Increase)/decrease in other receivables, deposits and prepayments		(234)	3,359
(Decrease)/increase in trade payables		(930)	1,265
Decrease in other payables and accrued charges		(71)	(702)
Effect of foreign exchange differences		(204)	(753)
Cash used in operations		(3,175)	(4,706)
Interest received		–	12
Net cash used in operating activities		(3,175)	(4,694)
Investing activities			
Purchase of property, plant and equipment		–	(328)
Net outflow of cash and cash equivalents in respect of change of status of a subsidiary	26	(7)	–
Net cash used in investing activities		(7)	(328)
Financing activities			
New loans – unsecured		2,000	–
Interest paid on bank borrowings		–	(1)
Issue for new shares		–	7,853
Share issue expenses		–	(657)
Repayment of advance to directors		–	(743)
Net cash generated from financing activities		2,000	6,452
Net (decrease)/increase in cash and cash equivalents		(1,182)	1,430
Cash and cash equivalents at beginning of year		2,014	582
Effect of foreign exchange rate changes		1	2
Cash and cash equivalents at end of year		833	2,014
Analysis of the balance of cash and cash equivalents			
Bank balances and cash		833	2,014

The accompanying notes form part of these financial statements.

1. ORGANISATION AND OPERATIONS

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 30 November 2000.

Pursuant to a group reorganisation to rationalise the group structure in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the group (the "Group") formed after the completion of the group reorganisation on 24 January 2002.

The Group resulting from the group reorganisation is regarded as a continuing entity. Accordingly, the prior years' financial statements of the Group have been prepared on the merger basis as set out in the Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for group reconstructions" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The shares of the Company were listed on the GEM of the Stock Exchange since 5 February 2002.

The Group is engaged in the business of sales, development and implementation of structural information integration and analysis systems, non-structural knowledge integration systems, and knowledge management ("KM") related network application systems and technology and provision of voice search engine portal.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by HKICPA that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies nor have affected the amounts reported for the current or prior years.

- HKAS 21 Amendment — Net investment in a Foreign Operation
- HKAS 39 & HKFRS 4 Amendments — Financial Guarantee Contracts
- HKAS 39 Amendments — The Fair Value Option
- HKFRS – Int 4 — Determining whether an Arrangement contains a Lease

(a) HKAS 21 "The Effect of Changes in Foreign Exchange Rates"

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 and 2005.

(b) HKAS 39 "Financial Instruments: Recognition and Measurement"

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered as insurance contracts, to be recognised initially at fair value and to be re-measured at the higher of the amount determined in accordance with HKAS 37 "Provision, Contingent Liabilities and Contingent Assets" and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue". The adoption of this amendment has had no material impact on these financial statements as the Group did not issue any such guarantee during the year.

(Expressed in Hong Kong dollars)

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(b) HKAS 39 "Financial Instruments: Recognition and Measurement" (continued)

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset to be measured at fair value through the profit or loss. The Group had not previously used this option, and hence the amendment has had no effect on these financial statements.

(c) HKFRS – Int 4 "Determining whether an Arrangement contains a Lease"

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

At the date of authorization of these financial statements, the Group has not early adopted the following new and revised HKFRSs, that have been issued but are not yet effective, to these financial statements.

		Effective for annual periods beginning on or after
HKAS 1 Amendment	Capital Disclosures	1 January 2007
HKFRS 7	Financial Instruments: Disclosures	1 January 2007
HK(IFRIC) – Int 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives	1 June 2006
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment	1 November 2006
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions	1 March 2007

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. The directors anticipate that while the adoption of HKAS 1 (Amendment) and HKFRS 7 will result in new and amended disclosures, these new and revised HKFRSs should not have any significant impact on the Group's results of operations and financial position.

3. BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM.

(b) Basis of preparation of financial statements

(i) The financial statements have been prepared under the historical cost convention, as modified for the revaluation of financial instruments which have been measured in fair value.

(ii) The preparation of the financial statements in conformity with HKFRSs requires that use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgement or complexity, or areas were assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4 to the consolidated financial statements.

(iii) The Group sustained consolidated loss attributable to equity holders of the Company of approximately $4,972,000 during the year, reported consolidated net current liabilities of approximately $2,611,000 as at 31 December 2006, and reported consolidated net cash outflow from operating activities of approximately $3,175,000. Notwithstanding going concerns and liquidity concerns arising from the above, the financial statements have been prepared on the a going concern basis, the validity of which depends upon the financial support of a substantial shareholder, who agreed to provide funds to finance the working capital requirements of the Group.

(c) Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

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

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

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

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

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 are recognised at their values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss account.

(e) Subsidiaries

A subsidiary is an enterprise in which the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

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

(f) Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to profit and loss account in the year 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 the assets, the expenditure is capitalised as an additional cost of the asset.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, and after taking into account their estimated residual value using the straight-line method at the rate of 20% per annum. The useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(h) Intangible assets

The intangible assets of the Group comprise computer software and are measured initially at cost and amortised on a straight-line basis over the estimated useful lives of 3 years.

(i) Impairment of tangible and intangible assets excluding goodwill

Assets that have an indefinite useful life are not subject to amortisation and tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss account, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit and loss account, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(j) Inventories

Inventories, comprise software licences and hardwares for resale, are stated at the lower of cost and net realisable value. Cost comprises the purchase costs and where applicable, those overheads incurred in bringing the inventories to their present location and condition and is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(i) Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate provision for impairment for estimated irrecoverable amounts are recognised in profit and loss account when there is objective evidence that the asset is impaired. The provision recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

(ii) Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

Investments classified as available-for-sale investments are measured at subsequent reporting dates at fair value investments with gains and losses arising from changes in fair value recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit and loss account for the period. Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses.

Impairment losses recognised in profit and loss account for equity investments classified as available-for-sale are not subsequently reversed through profit and loss account. Impairment losses recognised in profit and loss account for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

(iii) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(iv) Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

(v) Equity instruments

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

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Revenue recognition

Service fees from software development and system application are derived from services for providing customers with software application and technology. Service fees are recognised when services are provided.

Revenue from provision of voice search engine portal is recognised in accordance with the terms of agreements.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

(m) Taxation

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

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

Deferred tax liabilities is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. However, such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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 future taxable profit will be available to allow all or part of the asset to be recovered.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Translation of foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Hong Kong dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit and loss account for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit and loss account for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operation (including comparatives) are expressed in Hong Kong dollars using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit and loss account in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(p) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(q) Research and development expenditure

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

No development costs have been deferred during the year.

(r) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rentals under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term. Contingent rentals are charged to the profit and loss account in the period in which they are incurred.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(s) Employees' benefits

(i) Retirement benefit schemes

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

(ii) Share based payment

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binominal lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing the consolidated financial statements, management is required to exercise significant judgements in the selection and application of accounting principles, including making estimates and assumptions. The following is a review of the most significant accounting policies that are impacted by judgements and uncertainties and for which different amounts may be reported under a different set of conditions or using different assumptions.

Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

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 appropriate key assumptions in estimating the expected future cash flows from the cash-generating unit and to choose suitable discount rate and growth rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was approximately $22,847,000 and details set out in Note 17 to the financial statements.

5. REVENUE AND OTHER REVENUE

Revenue represents sales values of voice portal software less discounts and value added tax as follows:

	2006 $'000	2005 $'000
Revenue:		
Voice portal gateway facilities in communication and voice portal application software	4,788	6,066
Other revenue:		
Government subsidies	267	209
Subcontracting fees	177	–
Others	168	56
	612	265
	5,400	6,331

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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

(a) the KM systems segment engages in the sale, development and implementation of non-structural knowledge integration systems and KM related network application system and technology; and

(b) the voice portal segment engages in the provision of voice search engine portal.

In determining the Group's geographical segment, information based on location of assets is similar to that of the location of its customers.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments

The following table present revenue, results and certain asset, liability and expenditure information for the Group's business segments:

	KM Systems		Voice portal		Consolidated	
	2006	2005	2006	2005	2006	2005
	$'000	$'000	$'000	$'000	$'000	$'000
Segment revenue:						
Turnover	–	–	4,788	6,066	4,788	6,066
Segment results	(2,882)	(6,408)	(1,075)	(5,328)	(3,957)	(11,736)
Unallocated corporate expenses					(2,249)	(2,338)
Loss from operations					(6,206)	(14,074)
Interest of bank borrowings					–	(1)
Loss before minority interest					(6,206)	(14,075)
Assets:						
Segment assets	5,109	8,133	27,158	30,690	32,267	38,823
Unallocated corporate assets					444	1,611
Consolidated total assets					32,711	40,434
Liabilities:						
Segment liabilities	243	980	1,724	2,282	1,967	3,262
Unallocated corporate liabilities					2,507	399
					4,474	3,661
Other information:						
Allowance for bad and doubtful debts	–	–	25	344	25	344
Capital expenditures	–	3	–	325	–	328
Depreciation	2,113	1,915	827	2,528	2,940	4,443
Amortisation of intangible assets	792	783	12	234	804	1,017

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographic segments

The following table provides an analysis of the Group's turnover, results, assets and expenditure information by geographical market:

	Hong Kong		PRC other than Hong Kong		Consolidated	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000
External sales	–	–	4,788	6,066	4,788	6,066
Loss from operations	–	–	(6,206)	(14,074)	(6,206)	(14,074)
Assets:						
Segment assets	444	1,611	9,420	16,046	9,864	17,657
Unallocated assets					22,847	22,777
					32,711	40,434
Other information:						
Capital expenditures	–	3	–	325	–	328

7. LOSS BEFORE TAXATION

	2006 $'000	2005 $'000
Loss before taxation is arrived at after charging:–		
Directors' remuneration:–		
Fees	–	–
Other emoluments	159	224
Retirement benefits scheme contributions	14	12
Salaries and other staff costs	1,533	2,143
Retirement benefits scheme contributions (excluding directors)	257	338
	1,963	2,717
Auditors' remuneration	399	140
Allowance for bad and doubtful debts	25	344
Depreciation	2,940	4,443
Amortisation of intangible assets (included in administrative expenses)	804	1,017
Loss on disposal of property, plant and equipment	–	4
Property, plant and equipment written off	6	–
Research and development costs	–	2,370

8. DIRECTORS' REMUNERATION

	2006 $'000	2005 $'000
Executive directors:		
Directors' fees	–	–
Salaries and other benefits	15	62
Contributions to retirement benefits pension schemes	14	12
Independent non-executive directors:		
Directors' fees	–	–
Salaries and other benefits	144	162
Total emoluments	173	236

	2006 $'000	2005 $'000
Ma Gui Fang	29	71
Wang Yong	–	3
Zhang Gong	48	54
Chan Yat Tung, Peter	48	54
Feng Jue Min	48	54
	173	236

The emoluments of each of the above directors were less than $1,000,000 during each of the years ended 31 December 2006 and 2005. No directors waived any emoluments for both years.

9. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group, one (2005: one) was a director of the Company whose emoluments are included in the disclosure in note 8 above. The emoluments of the remaining four (2005: four) individuals were as follows:–

	2006 $'000	2005 $'000
Employees:		
Basic salaries and allowances	917	865
Retirement benefit scheme contributions	82	49
	999	914

The emoluments of each of the above employees were less than $1,000,000 during each of the years ended 31 December 2006 and 2005.

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX

The Group's primary operations are carried out in the PRC. The tax rate for the years ended 31 December 2005 and 2006 applicable to the Group is 33%, except for Unlimited Business Opportunity Communication Technology Company Limited ("UBO"), a PRC operating subsidiary of the Group, which was officially recognised as Hi-Tech Enterprise by the Beijing Municipal Government in November 2001, and therefore is eligible to receive preferential treatment in form of a concession tax rate of 15%. It is also eligible for full exemption from income tax for its first three years of operations. All of the PRC subsidiaries of the Group have incurred losses for the year and no provision for PRC income tax are required. These losses can be carried forward to offset against future profits for a period of five years.

At the balance sheet date, the Group has unexpired tax losses of approximately $20,596,000 (2005: $16,770,000) available to offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

No provision for Hong Kong Profits Tax has been made in the financial statements since the Company's Hong Kong subsidiary has made no assessable profit for the year.

The taxation for the year can be reconciled to the accounting loss as follows:

	2006 $'000	2005 $'000
Loss before taxation	(6,206)	(14,075)
Tax at the domestic income tax rate of 33% (2005: 33%)	(2,048)	(4,645)
Tax effect of expenses that are not deductible in determining taxable profit	117	412
Effect of different tax rates and preferential tax treatments	367	781
Tax effect of tax losses not recognised	1,564	3,452
Tax expense for the year	–	–

11. LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The loss attributable to equity shareholders of the Company is dealt with in the financial statements of the Company to the extent of approximately $901,000 (2005: $15,985,000).

12. DIVIDEND

No dividend was paid or proposed during 2006, nor has any dividend been proposed since the balance sheet date (2005: Nil).

13. LOSS PER SHARE

The calculation of the basic loss per share is based on the following data:

	2006 $'000	2005 $'000
Loss for the year and loss of the purpose of the basic loss per share	(4,972)	(13,525)
Weighted average number of ordinary shares for the purpose of basic loss per share	235,599,690	166,550,578

No diluted loss per share is disclosed since the Company has no dilutive potential shares.

14. PROPERTY, PLANT AND EQUIPMENT

The Group

	Leasehold improvements $'000	Furniture, fixtures and equipment $'000	Computer, network and related equipment $'000	Motor vehicles $'000	Total $'000
Cost:					
At 1 January 2005	120	784	23,051	357	24,312
Exchange adjustments	2	11	430	7	450
Additions	–	12	316	–	328
Disposals	–	(16)	–	–	(16)
At 31 December 2005	122	791	23,797	364	25,074
Exchange adjustments	1	–	139	–	140
Change of status from a subsidiary to available-for-sale investment	–	(16)	(7,575)	–	(7,591)
Disposals	–	–	(90)	–	(90)
At 31 December 2006	123	775	16,271	364	17,533
Accumulated depreciation:					
At 1 January 2005	6	586	7,620	334	8,546
Exchange adjustments	–	10	181	6	197
Provided for the year	24	104	4,291	24	4,443
Eliminated on disposal	–	(12)	–	–	(12)
At 31 December 2005	30	688	12,092	364	13,174
Exchange adjustments	–	2	42	–	44
Provided for the year	24	61	2,855	–	2,940
Change of status from a subsidiary to available-for-sale investment	–	(3)	(3,612)	–	(3,615)
Eliminated on disposal	–	–	(84)	–	(84)
At 31 December 2006	54	748	11,293	364	12,459
Net book values:					
At 31 December 2006	69	27	4,978	–	5,074
At 31 December 2005	92	103	11,705	–	11,900

15. INTANGIBLE ASSETS

The Group

	Computer software $'000
Cost:	
At 1 January 2005	6,850
Exchange adjustments	127
At 31 December 2005	6,977
Exchange adjustments	22
At 31 December 2006	**6,999**
Amortisation:	
At 1 January 2005	4,529
Provided for the year	1,017
Exchange adjustments	94
At 31 December 2005	5,640
Provided for the year	804
Exchange adjustments	19
At 31 December 2006	**6,463**
Net book value:	
At 31 December 2006	**536**
At 31 December 2005	1,337

16. INVESTMENTS IN SUBSIDIARIES

	The Company 2006 $'000	2005 $'000
Unlisted shares, at cost	26,074	26,074
Amount due from a subsidiary	63,026	61,770
	89,100	87,844
Less: Provision	(55,000)	(55,000)
	34,100	32,844

The amount due from a subsidiary is unsecured, interest free and in substance represent the Company's interest in this subsidiary in the form of quasi-equity loans.

(Expressed in Hong Kong dollars)

16. INVESTMENTS IN SUBSIDIARIES (continued)

Details of the subsidiaries of the Company as at 31 December 2006 are as follows:

Name of company	Legal form of entity	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Company directly or indirectly held	Principal activities
Chineseroad Incorporated 中國之路 (Note 1)	Limited liability	The British Virgin Islands ("BVI")	US$67,200	100%	Investment holding
Beijing Linefan Zhihui Technology Co. Ltd. (formerly known as Beijing Hangfan Technology Company Limited) 北京藍帆智慧科技有限公司 (formerly known as 北京航帆信息科技有限公司)	Equity joint venture ("EJV")	PRC	RMB1,000,000	100%	Application software provider of non-structural knowledge integration systems and services
Beijing Linefan Technology Company Limited 北京藍帆科技有限公司	EJV	PRC	US$500,000	100%	Sale, development and implementation of non-structural knowledge integration systems and KM related network application system and technology
Beijing Wellpay Software Technology Company Limited 北京威派軟件技術有限公司	EJV	PRC	RMB500,000	100%	Research and development, and provision of KM related network application and services
Unlimited Business Opportunity Communication Technology Company Limited 北京無限商機通信技術有限公司	EJV	PRC	RMB35,000,000	51.43%	Provision of voice search engine portal
Ha Er Bin Runke Communication Technology Company Limited 哈爾濱潤科通信技術有限公司	EJV	PRC	RMB10,000,000	26.23% (Note 2)	Provision of voice search engine portal

Note:

1. Chineseroad Incorporated is held by the Company directly. All other subsidiaries are held by the Company indirectly.

2. This subsidiary was accounted for as an available-for-sale investment with effect from 1 March 2006. Details were disclosed in Note 18 to the financial statements.

17. GOODWILL

The Group

	$'000
Cost:	
At 1 January 2005	22,360
Exchange adjustments	417
At 31 December 2005	22,777
Exchange adjustments	70
At 31 December 2006	22,847
Carrying amount:	
At 31 December 2006	22,847
At 31 December 2005	22,777

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill is allocated to the voice portal business segment.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The Group assesses the value of goodwill by reference to the valuation report prepared by an independent valuer. The valuation was determined from the cash flow projections based on of the voice portal business financial budgets approved by management covering a period of five years. The discount rate applied to the cash flow projections is 10.43% and cash flows beyond five year period are extrapolated using a growth rate of 2% which is determined with reference to the long term business prospects and the general economic outlook of the PRC. Management estimated the budgeted gross margin based on the past performance and their expectations for market development.

Based on the valuation report, the management considers that there is no impairment in the value of goodwill as at 31 December 2006.

18. AVAILABLE-FOR-SALE INVESTMENT

	The Group	
	2006	2005
	$'000	$'000
Unlisted investment	2,391	–

Pursuant to an agreement dated 28 February 2006, the Group agreed with an independent party whereby the independent party assumes full operational control for a term of 3 years of Ha Er Bin Runke Communication Technology Company Limited ("Runke"), a former subsidiary, in return for a fixed fee payable to the Group. The fee is fixed at RMB200,000 for the first year with an increment of 10% per annum for each of the subsequent two years. In addition, at the date of termination of the agreement, the independent party will receive a compensation calculated at 40% of the trade receivable balance as of that date.

As the Group ceased to have control over Runke commencing from 28 February 2006, the Group accounted for the investment in Runke as an available-for-sale investment and the value of net assets shared by the Group as at 28 February 2006 was deemed as the cost of the investment.

19. INVENTORIES

	The Group	
	2006	2005
	$'000	$'000
Low consumables	–	11

20. TRADE RECEIVABLES

The Group allows an average credit period of 90 days to its trade customers.

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

	The Group	
	2006	2005
	$'000	$'000
0-60 days	351	801
61-90 days	119	335
>90 days	211	442
	681	1,578

As at 31 December 2006 and 2005, all trade receivables were denominated in Renminbi ("RMB"). The directors consider that the carrying amount of trade receivables approximates their fair value.

21. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise bank balances and cash held by the Group and the Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

22. TRADE PAYABLES

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

	The Group	
	2006 $'000	2005 $'000
0-60 days	90	259
61-90 days	65	190
>90 days	687	1,346
	842	1,795

As at 31 December 2006 and 2005, all trade payables were denominated in RMB. The directors consider that the carrying amount of trade payables approximates their fair value.

23. SHARE CAPITAL

	Number of shares	$'000
Authorised:		
At 31 December 2004, 2005 and 2006	500,000,000	50,000
Issued and fully paid		
At 1 January 2005	1,570,664,600	15,707
Consolidation of shares (note a)	(1,413,598,140)	–
Rights issue of shares (note b)	78,533,230	7,853
At 31 December 2005 and 2006	235,599,690	23,560

(a) Pursuant to an ordinary resolution passed in a extraordinary general meeting on 31 March 2005, a share consolidation was effected that every ten shares of issued and unissued shares of the Company's share capital were consolidated into one consolidated share. The nominal value of the share capital of the Company was increased from $0.01 to $0.1 each.

(b) During the year ended 31 December 2005, a rights issue ("Rights Issue") of one rights share for every two consolidated shares held by members on the register of member on 31 March 2005 was made at an issue price of $0.1 per rights share, resulting in the issue of 78,533,230 shares of $0.1 each for a total cash consideration, after expenses, of approximately $7,196,000. The net proceeds of the Rights Issue were used as additional working capital for operating activities.

24. SHARE PREMIUM AND RESERVES

The Group

The capital reserve represents the Group's share of the contributions made by the minority shareholders to certain subsidiaries of the Group in the PRC.

The special reserve represents the difference between the nominal amount of shares and share premium of Chineseroad Incorporated and the nominal amount of the Company's shares issued pursuant to a group reorganisation in 2002.

PRC statutory reserves are reserves required by the relevant PRC law applicable to the Group's PRC subsidiaries.

The Company

	Share premium $'000	Contributed surplus $'000	Accumulated losses $'000	Total $'000
At 1 January 2005	55,116	26,067	(55,506)	25,677
Right issue expenses	(657)	–	–	(657)
Loss for the year	–	–	(15,985)	(15,985)
At 31 December 2005	54,459	26,067	(71,491)	9,035
Loss for the year	–	–	(901)	(901)
At 31 December 2006	**54,459**	**26,067**	**(72,392)**	**8,134**

The contributed surplus of the Company arose from a group reorganisation in 2002. The balance represents the difference between the nominal amount of the Company's shares issued and the consolidated shareholders' funds of Chineseroad Incorporated.

The Company's reserves available for distribution to shareholders as at 31 December 2006 represent the aggregate of share premium, contributed surplus and accumulated losses and amounted to approximately $8,134,000 (2005: $9,035,000).

25. SHARE OPTIONS

The Company has adopted a share option scheme on 24 January 2002 (the "Share Option Scheme"). The purpose of the Share Option Scheme is to enable the Company to grant options to selected employees to subscribe for shares of the Company as incentives or rewards for their contributions to the Group. The board of directors of the Company may, at its discretion, invite any full-time or part-time employees of the Company or any member of the Group, including any executive and non-executive directors, advisors, consultants of the Company or any subsidiary of the Company to take up options to subscribe for shares of the Company. The total number of shares of the Company available for issue under the Share Option Scheme is initially 10% of the issued share capital as at the date of adoption of the Share Option Scheme. The total number of shares of the Company issued and to be issued upon exercise of the options granted to a participant under the Share Option Scheme and any other share option scheme adopted by the Group (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue from time to time. An option may be exercised at any time during a period to be determined and notified by the Board to each participant. Upon acceptance of the option, the employee shall pay $1.00 to the Company by way of consideration for the grant. The subscription price for the shares of the Company will be a price determined by the Board and will be the highest of (i) the closing price of the shares on the GEM as stated on the Stock Exchange's daily quotations sheet on the date of granting of the options; (ii) the average closing price of the shares on the GEM as stated on the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of granting of the options; and (iii) the nominal value of a share. The Share Option Scheme will be valid and effective for a period of 10 years commencing on 24 January 2002.

An aggregate of 92,900,000 options each with an exercise price of $0.183 for one ordinary share were granted by the Company on 15 November 2002 pursuant to the Share Option Scheme to selected employees of the Group. All options lapsed during the years ended 2004 and 2005. No share option has been granted by the Company during the year.

As the original 10% general limit on the grant of options of the Share Option Scheme has almost been fully utilised in 2002, a refreshment of the 10% general limit was approved at the annual general meeting of the Company held on 23 April 2003, so that the total number of shares which may be issued upon the exercise of all options granted under the Share Option Scheme and any other share option schemes of the Company has been re-set at 10% of the shares of the Company in issue as at the date of approval of the "refreshed" limit.

26. NOTE TO CONSOLIDATED CASH FLOW STATEMENTS

Change of status from a subsidiary to available-for-sale investment

As disclosed in note 18 to the financial statements, the Group accounted for the investment in Runke as an available-for-sale investment with effect from 1 March 2006. Accordingly, the Group ceased to consolidate its result, assets and liabilities since that date.

The net assets of Runke at 28 February 2006 were as follows:

	$'000
Net assets disposed of:	
Property, plant and equipment	3,976
Trade and other receivables	890
Bank balances and cash	7
Trade and other payables	(186)
Minority interests	(2,296)
	2,391
Deemed as cost of available-for-sale investment	2,391
Net cash outflow arising on change of status from a subsidiary to available-for-sale investment:	
Cash consideration	–
Bank balances and cash	(7)
	(7)

27. RELATED PARTY TRANSACTIONS

(a) Unsecured loan was granted by a director of a subsidiary of the Company. The loan is unsecured, non interest bearing, and has no fixed repayment terms.

(b) Compensation to key management personnel

The remuneration of one (2005: two) executive director and other members of key management during the year was as follows:

	2006 $'000	2005 $'000
Salaries and other benefits	94	187

28. OPERATING LEASE COMMITMENT

	The Group 2006 $'000	2005 $'000
Minimum lease payments paid under operating leases in respect of office premises during the year	683	695

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:–

	The Group 2006 $'000	2005 $'000
Within one year	466	578
In the second to fifth year inclusive	–	49
	466	627

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for terms of one to two years and rentals are fixed over the terms of the leases.

29. RETIREMENT BENEFITS SCHEMES

The Company's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participated in retirement benefits schemes operated by the relevant local government authorities. The Group is required to make contributions on behalf of employees who are registered permanent residents in the PRC. The Group's contributions for the year ended 31 December 2006 were based on 20% (2005: 20%) of the average wages of workers in Beijing, the city where the Group's PRC's staff are located, and amounted to approximately $247,000 (2005: $326,000).

The Group's Hong Kong office implemented a Mandatory Provident Fund Scheme (the "MPF") in compliance with the applicable regulations in Hong Kong for its staff at the end of 2000. The Group's contribution to the MPF amounted to approximately $24,000 (2005: $24,000).

30. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The main risks arising from the Group's financial instruments are credit risk, foreign exchange risk, liquidity risk and interest rate risk. The directors of the Company meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The directors review and agree policies for managing each of these risks and they are summarised as follows:

(i) Credit risk

The Group's principal financial assets are cash and bank balances and trade and other receivables. The Group has a significant concentration of credit risk in that turnover was earned from the sole customer during the year. The carrying amounts of trade receivables included in the balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

(ii) Foreign exchange risk

The Group's main operations are in the PRC and has no significant exposure to any specific foreign currency other than RMB.

(iii) Liquidity risk

The group will consistently maintain a prudent financial policy and ensure that it maintains sufficient cash to meet its liquidity requirements including obtaining financial support from a substantial shareholder as discussed in note 3(b)(iii) to the financial statements.

(iv) Fair value and cash flow interest rate risk

The Group has no significant interest-bearing assets, as such its income and operating cash flows are substantially independent of changes in market interest rates.

(b) Fair value estimation

The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables approximate their fair values.

The following is a summary of the consolidated results and of the assets and liabilities of the Group prepared on the basis set out in note 1 below:

	Year ended 31 December				
	2006	2005	2004	2003	2002
	$'000	$'000	$'000	$'000	$'000
Turnover	4,788	6,066	6,181	14,421	51,024
Cost of sales	(2,329)	(2,778)	(2,825)	(5,380)	(3,958)
Gross profit	2,459	3,288	3,356	9,041	47,066
Other revenue	612	265	70	482	239
Distribution costs	(1,617)	(4,071)	(3,052)	(2,352)	(1,029)
Administrative expense	(7,660)	(13,556)	(33,803)	(34,295)	(27,187)
Amortisation of goodwill	–	–	(972)	(489)	(428)
Impairment loss recognised in respect of goodwill on subsidiaries	–	–	–	(3,818)	–
(Loss)/profit from operations	(6,206)	(14,074)	(34,401)	(31,431)	18,661
Interest on bank borrowings	–	(1)	(93)	(77)	(7)
Share of results of associates	–	–	(94)	(1,640)	(477)
Share of result of a jointly controlled entity	–	–	(3,203)	13	–
Gain/(loss) on disposal of subsidiaries	–	–	30	(127)	(2,199)
Loss on disposal of associates	–	–	(11)	–	–
Impairment loss recognised in respect of goodwill on an associate	–	–	–	(4,351)	–
(Loss)/profit before taxation	(6,206)	(14,075)	(37,772)	(37,613)	15,978
Taxation	–	–	–	–	(414)
(Loss)/profit for the year	(6,206)	(14,075)	(37,772)	(37,613)	15,564
Attributable to:					
Equity shareholders of the Company	(4,972)	(13,525)	(36,493)	(37,031)	16,354
Minority interests	(1,234)	(550)	(1,279)	(582)	(790)
	(6,206)	(14,075)	(37,772)	(37,613)	15,564

Financial Summary

For the year ended 31 December 2006 (Expressed in Hong Kong dollars)

ASSETS AND LIABILITIES

	At 31 December				
	2006 $'000	2005 $'000	2004 $'000	2003 $'000	2002 $'000
Non-current assets	30,890	36,014	40,447	18,749	17,636
Current assets	1,821	4,420	7,094	29,737	67,850
Current liabilities	4,474	3,661	3,841	5,434	4,757
Net current (liabilities)/assets	(2,653)	759	3,253	24,303	63,093
Net assets	28,237	36,773	43,700	43,052	80,729

Note:

1. The consolidated results of the Group for the years ended 31 December 2002, 2003 and 2004 and the assets and liabilities as at 31 December 2002, 2003 and 2004 of the Group have been extracted from the Company's published annual reports. The consolidated results of the Group for the years ended 31 December 2006 and 2005 are set out on page 16 of the annual report and the assets and liabilities as at 31 December 2006 and 2005 are as set out on page 17 of the annual report.