ThinSoft

THINSOFT (HOLDINGS) INC
博 軟(控 股)有 限 公 司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8096)

ANNUAL REPORT 2006

Characteristics of the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

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

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

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

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

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

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Ngiam Mia Hai Bernard
Chairman

ThinSoft (Holdings) Inc is very pleased to report several achievements in 2006. Most important is that the Group continued to command its premier leadership position in the global Thin Computing industry throughout 2006 and we clearly demonstrated that our core business has sustainable growth. The proven reliability of our award winning products, particularly WinConnect Server, will enable ThinSoft to continue to expand in major geographic markets – our marketing successes this year in the United States were exceptional. Turnover there increased approximately 54.7% over 2005 and we will model our future efforts in other key markets around the world, accordingly.

Financial Highlights

Our total Group operating profit before tax improved in 2006 by 21.9% over the prior year and was bolstered by 18.2% higher turnover and 21.3% stronger gross profit. After tax net profit was approximately HK$4.8 million. This was off some HK$3.5 million compared to the prior year when the Group's US entity recognized a non-cash favourable accounting effect on taxes of a deferred tax asset of HK$3.4 million in accordance with US regulations. In effect, deferred tax asset recognized the future tax benefit of prior years' losses incurred and had no cash or other effect on the Group's operating performance results.

	Quarterly Results For the three months ended **31 December** 2006 HK$'m	31 December 2005 HK$'m	Yearly Results **2006** HK$'m	2005 HK$'m
Revenue/Turnover	**5.3**	4.8	**20.6**	17.4
Profit	**2.4**	5.7	**4.8**	8.3

Following the conclusion of 2006, we have continued to augment our activities in sales and marketing as well as in engineering and product development. These efforts will provide sustained growth in 2007 and beyond and will ensure that the Group retains its leadership position in Thin Computing.

Throughout the Group, all levels of management at ThinSoft are focused on improving the customer experience with us — from the initial point of contact to the product acquisition and process and through the installation and after-sales product reliability phase. We have fine tuned the Group's infrastructure to ensure an efficient and effective experience whenever a customer interfaces with ThinSoft or its products.

Engineering and product development have worked diligently and effectively to ensure that all ThinSoft products will accommodate the latest PC operating systems being released including MicroSoft's new Windows Vista.

Business Review

The importance that Group management placed on continuing to develop the US market paid important dividends in 2006. Sales in the United States increased approximately 54.7% over the prior year and in 2006 represented approximately 47.3% of total annual Group turnover. The United States was followed by Europe which represented approximately 35.2% of total Group turnover.

Within the US market, a closer look at the sales trends indicate they are very positive, with significant new-customer purchases on the rise as well as solid industry buying trends in finance, government and medical billing services. The Group will continue to harvest this increasing demand in the US market.

ThinSoft (Holdings) Inc shareholders benefited in 2006 from concentrated efforts by Group management to enhance the customer experience in all areas. Sales and marketing initiatives included showcasing WinConnect Server, WinConnect, BeTwin and Buddy product solutions at key tradeshows in various international markets such as Futurecom 2006 in Brazil, Infotel 2006 in SriLanka, and Orbit iEX in Germany through its strong dealers in these markets. In addition, the Group will participate at CeBit 2007 in Hannover, Germany, which is the largest consumer electronics trade show in Europe.

Recognizing the importance of the US market, the Group took steps to augment direct customer interfaces by adding a Customer Care Center in California which provides a critical call response function to inquiring customers. This center is manned by experienced Customer Care representatives who have proven to be successful at converting early-stage pedestrian inquiries into consummated sales transactions for satisfied clients. Efficient and effective sales and sales processing followed on by a positive product experience are proven keys to success with the ThinSoft customer. This winning formula is the ThinSoft model upon which future sales will flourish.

Prospects

To summarize 2006, ThinSoft (Holdings) Inc demonstrated its ability to sustain growth in its core business and will launch 2007 with the same approach to products, markets and customer interface. During the coming year, it is expected that important product enhancements will be developed to augment the Group's leadership position in the Thin Computing industry.

Appreciation

ThinSoft acknowledges the dedication of its staff and the continued support of its business partners and shareholders over this period in making improved performance possible. I would like to express my personal appreciation to each of these groups for their contributions.

Ngiam Mia Hai Bernard
Chairman

Hong Kong
8 February 2007

CORPORATE INFORMATION

Executive directors
Ngiam Mia Hai Bernard *(Chairman)*
Ngiam Mia Hong Alfred

Independent non-executive directors
Chen Tzyh-Trong
Lee Chung Mong
Yeung Chi Hung

Audit committee
Chen Tzyh-Trong
Lee Chung Mong
Yeung Chi Hung

Compliance officer
Ngiam Mia Hai Bernard

Company secretary
Yau Lai Man *MBA, ACA, CPA (practising)*

Qualified accountant
Fan Kin Nang *MSc, FCPA (practising), FCCA, FCMA*

Authorised representatives
Ngiam Mia Hai Bernard
Yau Lai Man *MBA, ACA, CPA (practising)*

Registered office
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Auditors
Ernst & Young

Head office and principal place of business
Room 2818
China Merchants Tower
Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

Principal share registrar and transfer office
Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
Strathvale House
North Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

Hong Kong branch share registrar and transfer office
Hong Kong Registrars Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

Website addresses
www.ThinSoftinc.com
www.Thincomputinginc.com
www.Austin.com.sg

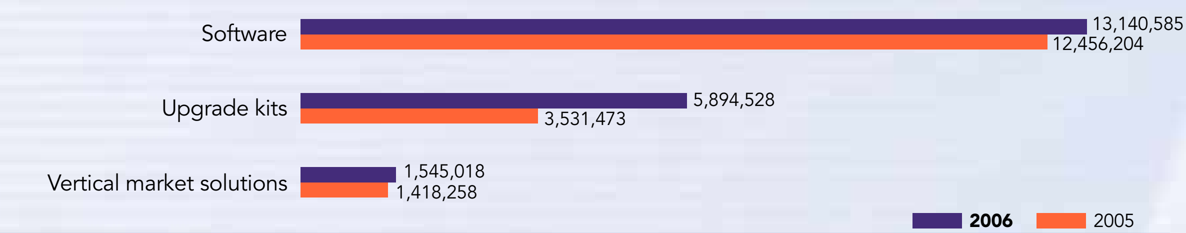
Principal bankers
Citibank N.A.
Union De Banques Arabes Et Francaises
DBS Bank (Hong Kong) Limited
First Niagara Bank

Stock code
8096

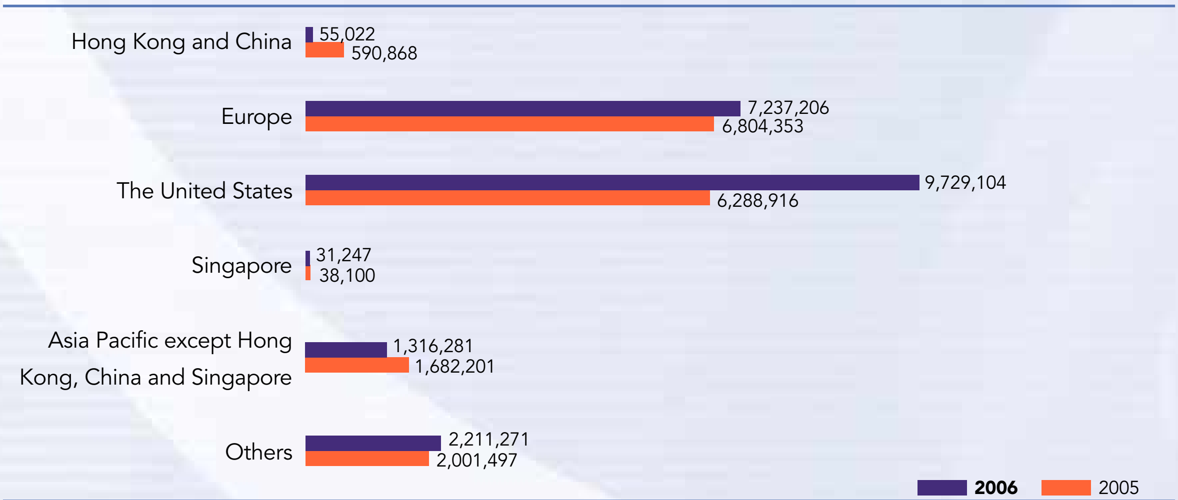
FINANCIAL HIGHLIGHTS

	Year ended 31 December **2006** HK$	2005 HK$
Results		
Revenue	**20,580,131**	17,405,935
Profit for the year	**4,776,565**	8,322,820
Assets and liabilities		
Total assets	**41,286,040**	33,068,784
Total liabilities	**7,214,364**	5,037,548
Shareholders' equity	**34,071,676**	28,031,236

Revenue by business segments

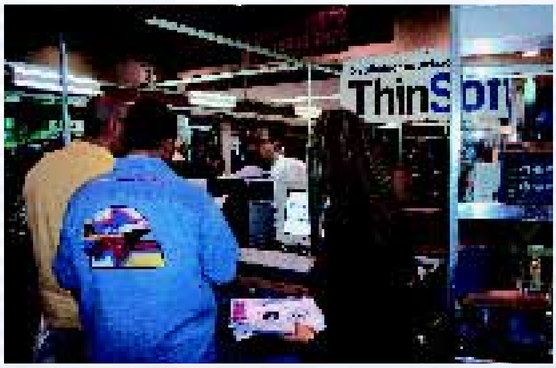


Revenue by geographical segments



MANAGEMENT DISCUSSION AND ANALYSIS

Exhibition: Linux World Brazil 2006 – May 2006



Exhibition: Mexico City World Trade Center – August 2006

Operations review

ThinSoft operations in the year under review focused successfully in three major areas of endeavour which were all geared toward improving the customer's overall experience with the Group — from their initial contact at trade shows or during pre-sales communications and on through after-sales support.

The first area of focus occurs in the market development process.

The Group continued to spearhead marketing initiatives in key geographic markets throughout its global distribution network. Management strongly urged, endorsed and supported the participation by its key dealers in important regional tradeshows such as Futurecom 2006 in Brazil, Infotel 2006 in SriLanka, and Orbit iEX in Germany. These trade exhibitions afford the Group's representatives with excellent opportunities to directly interface with key dealers as well as potential end users. The feedback from these contacts is critical to management when deciding how and where to position the Group's sales initiatives and how to improve the features of its suite of software products.

The second area of focus deals with direct customer care.

In a world now dominated by electronic communication, ThinSoft understands how important it is to its customers to be able to penetrate the electronic media and interface directly with a caring representative of the Group. For this reason, in the important US market, management initiated new Customer Care operations to augment the "before" and "after" sales process. Similar to the benefits of the Group's participation at key global tradeshows, the Customer Care unit gains invaluable insights into how customers perceive the Group; what the customers buying decisions are based on; how and where the Group's products are being deployed; and how effective the ThinSoft product suites are.

The third area of focus is in furthering product enhancements.

The knowledge base developed from these effective customer interfaces enables the ThinSoft product development group to enhance the WinConnect Server, WinConnect, BeTwin and Buddy product to better fit the computing needs of end users. The customer feedback and product development process is iterative and as new features are added to the product platforms, the customers' reactions are continuously monitored.

Financial Review

Total Group turnover for the year ended 31 December 2006 increased by approximately 18.2% to approximately HK$20.6 million when compared to last year of approximately HK$17.4 million. Sales strengths continued most notably on the United States of America where they increased by approximately 54.7% in 2006 and the US is now the single-largest geographic market for the Group, aggregating approximately 47.3% of the total sales in the year under review. This is in contrast to last year when Europe was the largest of the Group's geographic market accounting for approximately 39.1% of total sales in that year while the US accounted for approximately 36.1%.

Gross profit margin for the year ended 31 December 2006 increased to approximately HK$16.7 million representing approximately 81.1% as compared with approximately 79% in the corresponding previous year. The improved margins continue to be attributable to a richer mix of software sales versus those with hardware components. This is a trend and direction that Group management will further in the coming year.

General and administrative expenses in the year under review increased by approximately 26.4% to approximately HK$11 million when compared to approximately HK$8.7 million incurred in the previous year. The increase was the result of exchange difference realized during the year under review.

As a result, the Group's pre-tax operating income rose approximately 21.9% to approximately HK$6.3 million from approximatley HK$5.1 million in the prior year. Additionally, the Group's US entity was able to take advantage of applicable federal and state tax regulations to offset the otherwise taxable profits recorded in 2006. These regulations allow operating losses incurred in prior years to be carried forward and applied against otherwise taxable income in future years.

Consequently the Group registered a profit attributable to shareholders for the year under review of approximately HK$4.8 million compared to a profit of approximately HK$8.3 million in the prior year. The year 2005 profit was favourably when the US entity recognized future tax benefits of HK$3.4 million

The Group continues to be in a strong financial position. Cash and cash equivalents as at 31 December 2006 was approximately HK$36 million (2005: approximately HK$27.7 million). There were no bank borrowings as at 31 December 2006 (2005: Nil).

Capital Structure

There has been no change in the capital structure of the Company during the year under review. The capital of the Company comprises only ordinary shares. The Company and the Group has no borrowing and long-term debts.

Significant Investments

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

Material Acquisitions and Disposals of Subsidiaries/Future Plans for Material Investment

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.

Gearing Ratio

As at 31 December 2006, the Group did not have any long-term debts and its shareholders' funds amounted to approximately HK$34.1 million. In this regard, the Group had a net cash position and its gearing ratio should be zero (net debt to shareholders' funds) as at 31 December 2006.

Liquidity and Financial Resources

The Group generally financed its operations with internally generated cash flows.

As at 31 December 2006, the Group had cash and cash equivalents of approximately HK$36 million as compared to approximately HK$27.7 million as at 31 December 2005.

Foreign Exchange Exposure

It is the Group's policy to deposit in local currencies to minimise currency risk.

Charges on Group Assets

As at 31 December 2006, the Group did not have any charges on its assets.

Contingent Liability

The Group did not have any significant contingent liabilities as at 31 December 2006.

Segmental Information

The segmental information of the Group's products is set out in the financial statements on pages 33 to 35.

Employees

As at 31 December 2006, the Group had 17 full-time employees. The aggregate remuneration of the Group's employees, including that of the directors (the "Directors") of the Company, for the year under review and the previous year amounted to approximately HK$5.8 million and approximately HK$6 million respectively. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

Each of the executive Directors has entered into a service contract with the Company for the term of three years commencing from 27 February 2005 and expiring on 26 February 2008. Under the service contracts, after each completed year of service, the remuneration payable to each of them may, subject to the discretion of the directors and they will each be entitled to a discretionary bonus provided that the audited consolidated profit after taxation and minority interests (and after the payment of such bonus) but before extraordinary items (the "Profit") of the Group for the relevant year exceeds HK$10 million and further that the total amount of bonuses payable to all the directors for such year shall not exceed 5% of the Profit.

Pursuant to a pre-IPO share option scheme adopted by the Company on 2 February 2002, the Company had granted pre-IPO share options to 26 employees (including all executive Directors) of the Group to subscribe for a total of 52,600,000 shares, representing in aggregate approximately 10.52% of the issued share capital of the Company immediately following the completion of the Placing and the capitalization issue, at a subscription price ranging from 20% to 70% of the issue price of HK$0.40 per share.

At the date of this report, no share options have been granted under the post-IPO share option scheme adopted by the Company on 2 February 2002.

Other remuneration and benefits, including retirement benefits scheme, remained at appropriate level. Particulars are detailed in the relevant section of this report.

PROFILES OF DIRECTORS

Ngiam Mia Hai Bernard

Aged 46, is the executive Director and chairman of the Company and is responsible for strategic business planning, overall group management and business development. He is also concurrently responsible for marketing. He is currently an executive director of IPC Corporation Ltd ("IPC"). Mr. Ngiam received a Bachelor of Business Administration degree from the National University of Singapore in 1985. Mr. Ngiam is the brother of Mr. Ngiam Mia Hong Alfred.

Ngiam Mia Hong Alfred

Aged 43, is an executive Director and chief executive officer of the Company and spearheads the Group's research and development programs, including initiating and overseeing all projects. He is currently an executive Director of IPC. Mr. Ngiam graduated from the University of Waterloo, Canada with a Bachelor of Mathematics degree and was on the Deans Honours List. Mr. Ngiam is the brother of Mr. Ngiam Mia Hai Bernard.

Lee Chung Mong

Aged 48, is an independent non-executive Director. Mr. Lee obtained Ph.D. Degree in Computer Science from the University of Minnesota, USA in 1989. In the same year, he was appointed as Associate, Research Staff in the Institute of Systems Science at National University of Singapore. He had also worked as a faculty member of Computer Science at The Hong Kong University of Science & Technology for 8 years. In 1999, he was awarded a Teaching Excellence Appreciation Award by the Dean of the School of Engineering of The Hong Kong University of Science and Technology and was elevated as a Senior Member of the Institute of Electrical and Electronics Engineers. He invented the "Method and Apparatus for Verifying a Container Code" and the "Method for Identifying a Sequence of Alphanumeric Characters", which were patented in the United Kingdom and the United States respectively. He is now the chairman and chief executive officer of Asia Vision Technology Ltd.

Chen Tzyh-Trong

Aged 49, is an independent non-executive Director. Mr. Chen holds a bachelor degree in Laws, from National Taiwan University in Taiwan and a degree of Doctor of Philosophy, from the Faculty of Laws, University of London in the United Kingdom. He was a researcher of a trade organization in London. He served as a chairman's assistant of a public listed company in Hong Kong for several years. He had been working as a secretary general and a director of the Taiwan Business Association (Hong Kong) from 2000 to 2004. He was also a vice president of a financial advisory service company in Hong Kong and a city's general-affair advisor for Taiwan's Taipei City government. Currently, he is a director of the Taiwan Business Association (Hong Kong).

Yeung Chi Hung

Aged 45, is an independent non-executive Director. Mr. Yeung is certified public accountant of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in England and Wales. Mr. Yeung has over 13 years of experience of accounting and auditing. Mr. Yeung is a certified public accountant (practising) in Hong Kong and the managing director of Yeung, Chan & Associates CPA Limited.

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of ThinSoft (Holdings) Inc (the "Company") and of the consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2006.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 14 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 19 to 51.

The Directors do not recommend the payment of any dividends in respect of the year.

Financial summary

A summary of the published results and assets and liabilities of the Group for the past five financial years, as extracted from the audited financial statements, is set out on page 52. This summary does not form part of the audited financial statements.

Property, plant and equipment

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

Share capital and share options

There was no movement in the Company's authorised and issued share capital during the year. Details of the Company's share capital and share option schemes are set out in notes 22 and 23 to the financial statements, respectively.

Pre-emptive rights

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

Purchase, redemption or sale of listed securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2006.

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 24(b) to the financial statements and in the consolidated statement of changes in equity on page 21, respectively.

Distributable reserves

The Company had no reserves available for cash distribution and/or distribution in specie to shareholders of the Company as at 31 December 2006, as computed in accordance with the Companies Law of the Cayman Islands. The Company's share premium account, with a balance of HK$21,341,236, may be distributed in the form of fully paid bonus shares.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for approximately 49% of the Group's total sales for the year and sales to the largest customer included therein accounted for approximately 22.5% of the Group's total sales.

Purchases from the Group's five largest suppliers accounted for approximately 89.5% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 38% of the Group's total purchases.

Major customers and suppliers (continued)

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

Directors

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

Executive directors:

Ngiam Mia Hai Bernard *(Chairman)*
Ngiam Mia Hong Alfred *(Chief executive officer)*

Independent non-executive directors:

Chen Tzyh-Trong
Lee Chung Mong
Yeung Chi Hung

In accordance with the Company's articles of association and as recommended by the nomination committee of the Company, Mr. Ngiam Mia Hai Bernard and Mr. Lee Chung Mong will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Directors' service contracts

Each of the executive Directors has entered into a service contract with the Company for term of three years commencing from 27 February 2005 and expiring on 26 February 2008 unless terminated by either party giving not less than six month's prior written notice to the other.

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

Save as disclosed in notes 7 and 8 to the financial statements, there were no other emoluments, pension and any compensation arrangements for the Directors and past Directors as is specified on Sections 161 and 161A of the Companies Ordinance (Chapter 32 of the laws of Hong Kong).

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.

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

Arrangement for directors to acquire shares or debentures

Save as disclosed in the section "Share Option Schemes", at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable a director of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any body corporate.

Directors' interests in contracts

Save for transactions as disclosed in note 27 to the financial statements, no Director had a material beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party during the year under review.

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures

As at 31 December 2006, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM") of the Stock Exchange (the "GEM Listing Rules"), were as follows:

Long positions in ordinary shares of the Company:

Name of director	Capacity and nature of interest	Percentage of the Company's issued share capital
Ngiam Mia Hai Bernard	Other	*(note)*
Ngiam Mia Hong Alfred	Other	*(note)*

Note: IPC Corporation Ltd ("IPC"), the ultimate holding company of the Company, is a company incorporated under the laws of Singapore and whose securities are listed on the Singapore Exchange Securities Trading Limited. As at 31 December 2006, approximately 63.7% of the issued share capital of IPC is held by the public. As at 31 December 2006, IPC holds approximately 74.81% (or 375,000,000 ordinary shares) of the issued share capital of the Company.

As at 31 December 2006, each of Ngiam Mia Hai Bernard and Ngiam Mia Hong Alfred directly held approximately 1.4% and 1.3%, respectively, in the issued share capital of IPC.

Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin are the brothers of Ngiam Mia Hai Bernard and Ngiam Mia Hong Alfred. As at 31 December 2006, Ngiam Mia Je Patrick, Ngiam Mia Kiat Benjamin and Essex Investment (Singapore) Pte Ltd (whose entire issued share capital is held by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in the proportion of 50:50) together beneficially owned approximately 12.2% of the issued share capital of IPC.

Interest in underlying shares of the Company:

Share options granted under the Pre-Scheme (note):

	Number of share options directly beneficially held by the Directors and outstanding	Approximate percentage of the Company's issued share capital
Directors of the Company		
Ngiam Mia Hai Bernard	7,600,000	1.52
Ngiam Mia Hong Alfred	7,200,000	1.44
Former director of the Company		
William Michael Driscoll	3,600,000	0.72
Directors of subsidiaries		
Ngiam Mia Je Patrick	3,600,000	0.72
Ngiam Mia Kiat Benjamin	3,600,000	0.72
Lauw Hui Kian	3,600,000	0.72

Note: Please refer to note 23 to the financial statements for details of the Pre-Scheme (as defined in note 23(i) to the financial statements) and share options granted thereunder, including the above share options granted to the above Directors.

Save as disclosed above, as at 31 December 2006, none of the Directors or chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Directors' rights to acquire shares

Save as disclosed under the paragraph headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above and in the share option scheme disclosures in note 23 to the financial statements, at no time during the year under review were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

As at 31 December 2006, the following person had interests or short positions in the shares and underlying shares of the Company which as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long position

Name	Capacity and nature of interest	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
IPC	Directly beneficially owned	375,000,000	74.81

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 and short position in shares, underlying shares and debentures" above), had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

Connected and related party transactions

Details of the related party transactions for the year are set out in note 27 to the financial statements. Save as disclosed therein, there were no other transactions to be disclosed as connected and related party transactions in accordance with the requirements of the GEM Listing Rules and accounting principles generally accepted in Hong Kong.

Competition and conflict of interests

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any businesses that competes or may compete, either directly or indirectly, with the business of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during the year.

Auditors

Ernst & Young retire and a resolution for their re-appointment as auditors of the Company is to be proposed at the forthcoming annual general meeting.

Corporate Governance

A report on the principle corporate governance practices adopted by the Company is set out on pages 14 to 17 of the annual report.

ON BEHALF OF THE BOARD

Ngiam Mia Hai Bernard
Chairman

Hong Kong
8 February 2007

Introduction

The Company has complied with all the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules by establishing formal and transparent procedures to protect and maximize the interests of shareholders during the period under review.

Directors' securities transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2006.

Board of Directors and board meeting

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

Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out in the Report of the Directors. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. Mr. Ngiam Mia Hai Bernard is the chairman of the board of Director and an executive Director and Mr. Ngiam Mia Hong Alfred is the chief executive officer of the Company and an executive Director. Mr. Ngiam Mia Hai Bernard is Mr. Ngiam Mia Hong Alfred's brother. Apart from this, there is no relationship among the members of the board of Directors.

To improve the transparency and independency of the corporate governance of the Company, the chairman and chief executive officer of the Company are segregated and are not exercised by the same individual since August 2005.

The Company appointed three independent non-executive Directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. Mr. Chen Tzyh-Trong, Mr. Lee Chung Mong and Mr. Yeung Chi Hung are the independent non-executive Directors. Mr. Yeung Chi Hung has been appointed as an independent non-executive Director on 30 September 2004, which term of appointment has been renewed for a further two years commenced from 30 September 2006. Mr. Yeung is subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's articles of association, provided that the appointment may be terminated by the Company or Mr. Yeung Chi Hung with a written notice of not less than one month unless both parties agree otherwise.

The term of appointment for Mr. Chen Tzyh-Trong and Mr. Lee Chung Mong commenced from 2 February 2002 and expired on the date on which the annual general meeting of the Company for the year of 2005 was held, and continue thereafter subject to retirement by rotation and other related provisions as stipulated in the articles of association of the Company.

The Company arranged appropriate insurance cover in respect of legal actions against directors.

The board of Directors held a full board meeting for each quarter.

Details of the attendance of the board of Directors are as follows:–

Directors	**Attendance**
Mr. Ngiam Mia Hai Bernard	4/4
Mr. Ngiam Mia Hong Alfred	4/4
Mr. Chen Tzyh-Trong	4/4
Mr. Lee Chung Mong	4/4
Mr. Yeung Chi Hung	4/4

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

Remuneration of directors

The remuneration committee was established in August 2005. The chairman of the committee is Mr. Chen Tzyh-Trong, an independent non-executive Director, and other members include Mr. Lee Chung Mong, Mr. Yeung Chi Hung and Mr. Ngiam Mia Hai Bernard, the majority being independent non-executive Directors.

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

During the period under review, a meeting of the remuneration committee was held on 2 February 2007. Details of the attendance of the remuneration committee meeting are as follows:–

Members	**Attendance**
Mr. Chen Tzyh-Trong	1/1
Mr. Lee Chung Mong	1/1
Mr. Yeung Chi Hung	1/1
Mr. Ngiam Mia Hai Bernard	1/1

The remuneration committee of the Company has considered and reviewed the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors. The remuneration committee of the Company considers that the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors are fair and reasonable.

Nomination of directors

The nomination committee was established in August 2005. The chairman of the committee is Mr. Ngiam Mia Hai Bernard, the chairman of the Company, and other members include Mr. Chen Tzyh-Trong, Mr. Lee Chung Mong and Mr. Yeung Chi Hung, all are independent non-executive Directors.

The role and function of the nomination committee included 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 period under review.

During the period under review, a meeting of the nomination committee was held on 2 February 2007 meeting for nomination of Directors. Details of the attendance of the meeting are as follows:–

Members	Attendance
Mr. Ngiam Mia Hai Bernard	1/1
Mr. Chen Tzyh-Trong	1/1
Mr. Lee Chung Mong	1/1
Mr. Yeung Chi Hung	1/1

During the meeting, the board of Directors considered and resolved that all the existing Directors shall be recommended to be retained by the Company. Further, in accordance with the Company's articles of association, Mr. Ngiam Mia Hai Bernard and Mr. Lee Chung Mong will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

Under code provision A.4.2 of the Corporate Governance Practices and the existing articles of association of the Company, every Director should be subject to retirement by rotation at least once every three years. As Mr. Ngiam Mia Hai Bernard and Mr. Ngiam Mia Hong Alfred are the only two executive Directors, and Mr. Ngiam Mia Hong Alfred was subject to retirement by rotation at the annual general meeting last year, the nomination committee recommends that Mr. Ngiam Mia Hai Bernard shall be subject to retirement by rotation at the forthcoming annual general meeting.

Auditors' remuneration

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Group has paid an aggregate of HK$667,329 to the external auditors for their services including audit, taxation, due diligence and other advisory services.

Audit committee

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises three members, Mr. Chen Tzyh-Trong, Mr. Lee Chung Mong, and Mr. Yeung Chi Hung. All of them are independent non-executive Directors. The chairman of the audit committee is Mr. Chen Tzyh-Trong.

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

Members	Attendance
Mr. Chen Tzyh-Trong	4/4
Mr. Lee Chung Mong	4/4
Mr. Yeung Chi Hung	4/4

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.

Directors' and auditors responsibilities for accounts

The Directors' responsibilities for the accounts, and the responsibilities of the external auditors to the shareholders are set out on page 18.

Internal control

The Company has conducted a review of its system of internal control periodically to ensure the effective and adequate internal control system. The Company convened meeting periodically to discuss financial, operational and risk management control.

Investors relations

The Company has disclosed all necessary information to the shareholders in compliance with GEM Listing Rules. Meetings are held with media and investors periodically. The Company also replied the enquiries from shareholders timely. The Directors host the annual general meeting each year to meet the shareholders and answer to their enquiries.

ERNST & YOUNG
安永會計師事務所

To the shareholders of ThinSoft (Holdings) Inc
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of ThinSoft (Holdings) Inc set out on pages 19 to 51, 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 the 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 of the Company 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made 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 auditors' judgement, 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 auditors consider 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 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 Group's profit and cash flows 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.

Ernst & Young
Certified Public Accountants
Hong Kong

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

8 February 2007

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	Notes	**2006** **HK$**	2005 HK$
REVENUE	5	**20,580,131**	17,405,935
Cost of sales		**(3,891,040)**	(3,648,676)
Gross profit		**16,689,091**	13,757,259
Other income	5	**1,256,948**	539,959
Selling and distribution costs		**(650,603)**	(415,879)
Administrative expenses		**(11,018,061)**	(8,715,654)
Other operating expenses		**–**	(16,741)
PROFIT BEFORE TAX	6	**6,277,375**	5,148,944
Tax	9	**(1,500,810)**	3,173,876
PROFIT FOR THE YEAR		**4,776,565**	8,322,820
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	11		
Basic		**HK0.95 cents**	HK1.66 cents
Diluted		**HK0.92 cents**	HK1.60 cents

CONSOLIDATED BALANCE SHEET

31 December 2006

	Notes	2006 HK$	2005 HK$
NON-CURRENT ASSETS			
Deferred development expenditure	12	**–**	–
Property, plant and equipment	13	**–**	1,363
Available-for-sale investment	15	**817,521**	757,875
Deferred tax assets	16	**2,649,270**	3,377,400
Total non-current assets		**3,466,791**	4,136,638
CURRENT ASSETS			
Inventories	17	**332,291**	488,975
Accounts receivable	18	**416,084**	466,446
Prepayments, deposits and other receivables		**1,012,109**	321,445
Cash and cash equivalents	19	**36,058,765**	27,655,280
Total current assets		**37,819,249**	28,932,146
CURRENT LIABILITIES			
Accounts payable	20	**392,915**	239,796
Accrued liabilities and other payables		**5,317,258**	4,606,013
Due to ultimate holding company	21	**703,174**	–
Tax payable		**801,017**	191,739
Total current liabilities		**7,214,364**	5,037,548
NET CURRENT ASSETS		**30,604,885**	23,894,598
Net assets		**34,071,676**	28,031,236
EQUITY			
Issued share capital	22	**25,062,750**	25,062,750
Reserves	24(a)	**9,008,926**	2,968,486
Total equity		**34,071,676**	28,031,236

Director
Ngiam Mia Hai Bernard

Director
Ngiam Mia Hong Alfred

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

	Attributable to equity holders of the Company						
	Issued share capital HK$ (Note 22)	**Share premium account** HK$ (Note 24(a))	**Exchange translation reserve** HK$	**Capital reserve** HK$ (Note 24(a))	**Accumulated losses** HK$	**Reserves Total** HK$	**Total equity** HK$
At 1 January 2005	25,062,750	8,634,598	1,225,684	6,840,000	(22,054,616)	(5,354,334)	19,708,416
Profit for the year	–	–	–	–	8,322,820	8,322,820	8,322,820
At 31 December 2005 and 1 January 2006	25,062,750	8,634,598	1,225,684	6,840,000	(13,731,796)	2,968,486	28,031,236
Exchange realignment	–	–	1,263,875	–	–	1,263,875	1,263,875
Total income and expense for the year recognised directly in equity	–	–	1,263,875	–	–	1,263,875	1,263,875
Profit for the year	–	–	–	–	4,776,565	4,776,565	4,776,565
At 31 December 2006	**25,062,750**	**8,634,598**	**2,489,559**	**6,840,000**	**(8,955,231)**	**9,008,926**	**34,071,676**

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	Notes	2006 HK$	2005 HK$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**6,277,375**	5,148,944
Adjustments for:			
Bank interest income	5	**(1,256,948)**	(539,959)
Depreciation	6	**1,414**	3,596
		5,021,841	4,612,581
Decrease/(increase) in inventories		**184,549**	(44,764)
Decrease in accounts receivable		**78,573**	624,419
Increase in prepayments, deposits and other receivables		**(690,664)**	(56,095)
Increase in accounts payable		**135,193**	192,791
Increase in accrued liabilities and other payables		**674,083**	380,169
Increase in due to ultimate holding company		**703,174**	–
Cash generated from operations		**6,106,749**	5,709,101
Singapore income tax paid, net		**(197,032)**	(16,469)
United States of America federal and state income tax paid, net		**(9,266)**	(9,649)
Net cash inflow from operating activities		**5,900,451**	5,682,983
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of an available-for-sale investment		**–**	(757,875)
Interest received		**1,256,948**	539,959
Net cash inflow/(outflow) from investing activities		**1,256,948**	(217,916)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**7,157,399**	5,465,067
Cash and cash equivalents at beginning of year		**27,655,280**	22,190,213
Effect of foreign exchange rate changes, net		**1,246,086**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		**36,058,765**	27,655,280
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	**1,188,809**	785,714
Time deposits with original maturity of less than three months when acquired	19	**34,869,956**	26,869,566
		36,058,765	27,655,280

BALANCE SHEET

31 December 2006

	Notes	2006 HK$	2005 HK$
NON-CURRENT ASSETS			
Interests in subsidiaries	14	**20,075,886**	23,428,616
CURRENT ASSETS			
Prepayments, deposits and other receivables		**308,935**	321,445
Cash and cash equivalents	19	**3,104,293**	1,952,374
Total current assets		**3,413,228**	2,273,819
CURRENT LIABILITIES			
Accrued liabilities and other payables		**3,607,614**	3,325,317
NET CURRENT LIABILITIES		**(194,386)**	(1,051,498)
Net assets		**19,881,500**	22,377,118
EQUITY			
Issued share capital	22	**25,062,750**	25,062,750
Reserves	24(b)	**(5,181,250)**	(2,685,632)
Total equity		**19,881,500**	22,377,118

Director
Ngiam Mia Hai Bernard

Director
Ngiam Mia Hong Alfred

1. Corporate Information

ThinSoft (Holdings) Inc (the "Company") is a limited liability company incorporated in the Cayman Islands. The principal place of business of the Company is located at Room 2818, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road, Central, Hong Kong.

During the year, the Group's principal activities were the development and distribution of Thin Computing solutions and related products. There were no significant changes in the nature of the Group's principal activities during the year.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is IPC Corporation Ltd. ("IPC"), which is incorporated in Singapore and listed on The Singapore Exchange Securities Trading Limited.

2.1 Basis of Preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards

The Group has adopted the following new and revised HKFRSs, applicable to these financial statements, for the first time for the current year's financial statements. The adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 The Effects 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 or 31 December 2005.

(b) HK(IFRIC)-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.

2.3 Impact of Issued but not yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs applicable to these financial statements, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

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

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32 "Financial Instruments: Disclosure and Presentation".

HK(IFRIC)-Int 8 and HK(IFRIC)-Int 10 shall be applied for annual periods beginning on or after 1 May 2006 and 1 November 2006, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 Summary of Significant Accounting Policies

Subsidiaries

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

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

Deferred development expenditure

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the expected economic useful lives of the underlying products, subject to a maximum period of five years commencing in the year when the products are put into commercial production. The software development expenditure is amortised over the period of three years whereas the website development expenditure is amortised over the period of five years.

Useful lives and amortisation method are reviewed and adjusted if appropriate, at each balance sheet date.

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation

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

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment over its estimated useful life of five years.

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

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

Provisions

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

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

Impairment of non-financial assets

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

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

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

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets

Financial assets in the scope of HKAS 39 "Financial Instruments: Recognition and Measurements" are classified as loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale investments are those non-derivative financial assets in unlisted equity securities that are designated as available for sale or are not classified in another category. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis and option pricing models.

Impairment of financial assets

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

Assets carried at amortised cost

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

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

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

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

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

2.4 Summary of Significant Accounting Policies (continued)

Derecognition of financial assets (continued)

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

Financial liabilities at amortised cost

Financial liabilities including accounts and other payables, and amount due to ultimate holding company are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for obsolete or slow-moving items. Cost is determined on the first-in, first-out basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Income tax

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

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

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

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

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

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

2.4 Summary of Significant Accounting Policies (continued)

Income tax (continued)

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

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

Revenue recognition

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

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

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

Employee benefits

Retirement benefits schemes

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

2.4 Summary of Significant Accounting Policies (continued)

Employee benefits (continued)

Retirement benefits schemes (continued)

The employees of the subsidiary in Singapore, ThinSoft Pte Ltd, are members of the Central Provident Fund operated by the government of Singapore. The subsidiary and the employees are required to contribute a certain percentage of the employees' payroll to the Central Provident Fund. The subsidiary has no further obligations for the actual pension payments or post-retirement benefits beyond its contributions.

Apart from the retirement benefits schemes provided by ThinSoft Pte Ltd and the Company, other subsidiaries of the Group do not have a pension scheme for their employees.

Share-based payment transactions

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

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

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

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

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

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

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

The Group has adopted the transitional provisions of HKFRS 2 "Share-based payment" in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted after 1 January 2005.

2.4 Summary of Significant Accounting Policies (continued)

Related parties

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

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

(b) the party is a member of the key management personnel of the Group or its holding company;

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

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

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

Foreign currencies

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

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

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

Operating leases

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

Cash and cash equivalents

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

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

3. Significant Accounting Judgement and Estimate

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements.

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 the 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.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of the Group's assets and liabilities within the next financial year, are discussed below.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses carried forward to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves estimation regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the carry forward tax losses, the asset balance will be reduced and charged to the income statement. The carrying value of deferred tax assets relating to recognise tax losses at 31 December 2006 was HK$2,590,965 (2005: HK$3,255,274).

4. Segment Information

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 other business segments. Summary details of the business segments are as follows:

(a) the software segment is a supplier of the Group's software solutions;

(b) the engineering fee segment engages in the provision of engineering services;

(c) the upgrade kits segment comprises the sale of the Group's thin client solutions related to hardware peripherals and accessories; and

(d) the vertical market solutions segment provides the Group's thin client solutions for several vertical market applications such as call centres, kiosks, point-of-sale and industrial applications.

4. Segment Information (continued)

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets/ customers.

Intersegment transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Business segments

The following table presents revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

	Software		Engineering fee		Upgrade kits		Vertical market solutions		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$
Segment revenue:												
Sales to external customers	**13,140,585**	12,456,204	**–**	–	**5,894,528**	3,531,473	**1,545,018**	1,418,258	**–**	–	**20,580,131**	17,405,935
Intersegment transfers	**–**	–	**1,989,000**	1,989,000	**521,798**	420,467	**–**	–	**(2,510,798)**	(2,409,467)	**–**	–
Total	**13,140,585**	12,456,204	**1,989,000**	1,989,000	**6,416,326**	3,951,940	**1,545,018**	1,418,258	**(2,510,798)**	(2,409,467)	**20,580,131**	17,405,935
Segment results	**7,383,745**	7,177,292	**–**	–	**2,632,847**	1,766,422	**(162,753)**	(73,473)	**–**	–	**9,853,839**	8,870,241
Bank interest income											**1,256,948**	539,959
Unallocated expenses											**(4,833,412)**	(4,261,256)
Profit before tax											**6,277,375**	5,148,944
Tax											**(1,500,810)**	3,173,876
Profit for the year											**4,776,565**	8,322,820
Assets and liabilities												
Segment assets	**1,119,258**	602,736	**–**	–	**332,291**	354,051	**–**	–	**–**	–	**1,451,549**	956,787
Unallocated assets											**39,834,491**	32,111,997
Total assets											**41,286,040**	33,068,784
Segment liabilities	**–**	–	**–**	–	**967,514**	491,352	**15,227**	9,111	**–**	–	**982,741**	500,463
Unallocated liabilities											**6,231,623**	4,537,085
Total liabilities											**7,214,364**	5,037,548
Other segment information:												
Depreciation	**1,414**	3,596	**–**	–	**–**	–	**–**	–	**–**	–	**1,414**	3,596
Bad debts written off	**–**	16,741	**–**	–	**–**	–	**–**	–	**–**	–	**–**	16,741

4. Segment Information (continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

	Hong Kong and China		Europe		The United States		Singapore		Asia Pacific except Hong Kong, China and Singapore		Others		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$
Segment revenue:																
Sales to external customers	**55,022**	590,868	**7,237,206**	6,804,353	**9,729,104**	6,288,916	**31,247**	38,100	**1,316,281**	1,682,201	**2,211,271**	2,001,497	**–**	–	**20,580,131**	17,405,935
Intersegment transfers	**–**	–	**–**	–	**521,798**	420,467	**1,989,000**	1,989,000	**–**	–	**–**	–	**(2,510,798)**	(2,409,467)	**–**	–
Total	**55,022**	590,868	**7,237,206**	6,804,353	**10,250,902**	6,709,383	**2,020,247**	2,027,100	**1,316,281**	1,682,201	**2,211,271**	2,001,497	**(2,510,798)**	(2,409,467)	**20,580,131**	17,405,935
Other segment information:																
Segment assets	**3,516,056**	5,870,872	**–**	–	**9,445,588**	4,602,007	**24,857,605**	18,460,630	**–**	–	**–**	–	**–**	–	**37,819,249**	28,933,509
Unallocated assets															**3,466,791**	4,135,275
Total assets															**41,286,040**	33,068,784

5. Revenue and Other Income

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold and services rendered, after allowances for return and trade discounts, and applicable goods and service taxes. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

An analysis of the Group's revenue and other income is as follows:

	Group	
	2006	2005
	HK$	HK$
Revenue:		
Sale of goods	**20,580,131**	17,405,935
Other income:		
Bank interest income	**1,256,948**	539,959
Total income	**21,837,079**	17,945,894

6. Profit before Tax

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2006 HK$	2005 HK$
Costs of inventories sold and services provided*		**3,891,040**	3,648,676
Auditors' remuneration		**667,329**	405,288
Depreciation	13	**1,414**	3,596
Employee benefits expense (excluding directors' remuneration *(note 7)*):			
Wages and salaries		**3,032,435**	3,298,466
Pension scheme contributions**		**175,445**	205,268
		3,207,880	3,503,734
Minimum lease payments under operating leases in respect of land and buildings to:			
The ultimate holding company	27	**352,166**	338,400
An independent third party		**28,080**	37,380
		380,246	375,780
Bad debts written off		**–**	16,741
Foreign exchange differences, net		**1,400,958**	(509,211)

* The costs of inventories sold and services provided for the year ended 31 December 2006 include direct staff costs of HK$608,400 (2005: HK$585,000), which were also included in the respective total amounts disclosed separately above of each of these types of expenses for the year.

** At 31 December 2006, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2005: Nil).

7. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2006 HK$	2005 HK$
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**450,000**	450,000
	450,000	450,000
Other emoluments:		
Salaries, allowances and benefits in kind	**2,073,868**	1,992,800
Pension scheme contributions	**68,672**	73,320
	2,142,540	2,066,120
	2,592,540	2,516,120

7. Directors' Remuneration (continued)

There was no arrangement under which a director waived or agreed to waive any emoluments during the current and prior years.

There were no share options granted to the directors during the year (2005: Nil).

(a) Executive directors

2006

	Fees HK$	Salaries, allowances, and benefits in kind HK$	Pension scheme contributions HK$	Total HK$
Ngiam Mia Hai Bernard	**–**	**1,036,934**	**34,336**	**1,071,270**
Ngiam Mia Hong Alfred	**–**	**1,036,934**	**34,336**	**1,071,270**
	–	**2,073,868**	**68,672**	**2,142,540**

2005

	Fees HK$	Salaries, allowances, and benefits in kind HK$	Pension scheme contributions HK$	Total HK$
Ngiam Mia Hai Bernard	–	996,400	36,660	1,033,060
Ngiam Mia Hong Alfred	–	996,400	36,660	1,033,060
	–	1,992,800	73,320	2,066,120

(b) Independent non-executive directors

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

	2006 HK$	2005 HK$
Chen Tzyh-Trong	**150,000**	150,000
Lee Chung Mong	**150,000**	150,000
Yeung Chi Hung	**150,000**	150,000
	450,000	450,000

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

8. Five Highest Paid Employees

The five highest paid employees during the year included two (2005: two) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining three (2005: three) non-director, highest paid employees of the Group for the year are as follows:

	Group	
	2006	2005
	HK$	HK$
Salaries, allowances and benefits in kind	**1,195,344**	1,205,400

The remuneration of each of the non-director, highest paid employees for the years ended 31 December 2006 and 2005 fell within the Nil to HK$1,000,000 band.

There were no share options granted by the Company to the non-director, highest paid employees during the year (2005: Nil).

9. Tax

	Group	
	2006	2005
	HK$	HK$
Group:		
Current		
– Hong Kong	**–**	–
– Outside Hong Kong	**772,680**	146,889
Deferred *(note 16)*	**728,130**	(3,377,400)
	1,500,810	(3,230,511)
Underprovision in prior years	**–**	56,635
Total tax charge/(credit) for the year	**1,500,810**	(3,173,876)

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising in Hong Kong during the year (2005: Nil).

ThinSoft Pte Ltd, a wholly-owned subsidiary incorporated in Singapore, is subject to Singapore income tax. Singapore income tax has been provided at the rate of 20% (2005: 20%) on the estimated assessable profits arising in Singapore for the year.

ThinSoft (USA) Inc is a wholly-owned subsidiary incorporated in the State of Delaware in the United States of America. During the year ended 31 December 2006, it has been operating in the states of New York and California in the United States of America and is subject to the United States federal income tax at progressive rates ranging from 15% to 39%, New York state corporate tax at a rate of 7.5% and California state corporate tax at a rate of 8.84%, respectively, on its estimated assessable profits arising on a world wide basis.

During the year ended 31 December 2005, ThinSoft (USA) Inc had been operating in the State of New York in the United States of America and was subject to the United States federal income tax at progressive rate ranging from 15% to 39% and New York state corporate tax at a rate of 7.5% on its estimated assessable profits arising on a worldwide basis.

9. Tax (continued)

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

	Group	
	2006	2005
	HK$	HK$
Profit before tax	**6,277,375**	5,148,944
Tax at the applicable rates to profits in the countries concerned	**1,724,840**	1,449,895
Adjustments in respect of current tax of prior years	**–**	56,635
Income not subject to tax	**(183,223)**	(144,560)
Expenses not deductible for tax	**623,602**	39,834
Tax loss recognised	**–**	(3,377,400)
Tax loss utilised from prior years	**(664,409)**	(1,198,280)
Tax charge/(credit) at the Group's effective rate	**1,500,810**	(3,173,876)

10. Profit Attributable to Equity Holders of the Company

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2006 includes a loss of HK$2,495,618 (2005: profit of HK$2,841,578) which has been dealt with in the financial statements of the Company (note 24(b)).

11. Earnings per Share Attributable to Ordinary Equity Holders of the Company

The calculation of basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK$4,776,565 (2005: HK$8,322,820), and the 501,255,000 (2005: 501,255,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of HK$4,776,565 (2005: HK$8,322,820), and the weighted average number of 521,480,123 (2005: 520,902,857) ordinary shares in issue during the year, adjusted for the effects of all dilutive potential shares.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is calculated based on the 501,255,000 (2005: 501,255,000) ordinary shares in issue during the year plus the weighted average of 20,225,123 (2005: 19,647,857) ordinary shares deemed to be issued at no consideration as if all of the Company's outstanding share options have been exercised.

12. Deferred Development Expenditure

Group

	Software development expenditure HK$	Website development expenditure HK$	Total HK$
Cost:			
At 1 January 2005, 31 December 2005, 1 January 2006 and 31 December 2006	20,573,121	1,761,427	22,334,548
Accumulated amortisation:			
At 1 January 2005, 31 December 2005, 1 January 2006 and 31 December 2006	20,573,121	1,761,427	22,334,548
Net book value:			
At 31 December 2006	**–**	**–**	**–**
At 31 December 2005	–	–	–

13. Property, Plant and Equipment

Group

	Office equipment HK$	Plant and machinery HK$	Furniture and fittings HK$	Total HK$
Cost:				
At 1 January 2005, 31 December 2005 and 1 January 2006	103,362	222,000	23,400	348,762
Exchange realignments	4,652	17,472	–	22,124
At 31 December 2006	108,014	239,472	23,400	370,886
Accumulated depreciation:				
At 1 January 2005	98,403	222,000	23,400	343,803
Provided during the year – note 6	3,596	–	–	3,596
At 31 December 2005 and 1 January 2006	101,999	222,000	23,400	347,399
Provided during the year – note 6	1,414	–	–	1,414
Exchange realignments	4,601	17,472	–	22,073
At 31 December 2006	**108,014**	**239,472**	**23,400**	**370,886**
Net book value:				
At 31 December 2006	**–**	**–**	**–**	**–**
At 31 December 2005	1,363	–	–	1,363

14. Interests in Subsidiaries

	Company 2006 HK$	2005 HK$
Unlisted shares, at cost	**12,856,638**	12,856,638
Due from subsidiaries	**20,009,248**	23,571,978
	32,865,886	36,428,616
Impairment for unlisted investments	**(12,790,000)**	(13,000,000)
	20,075,886	23,428,616

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of amounts due from subsidiaries approximate to their fair values.

Particulars of the subsidiaries as at 31 December 2006 are as follows:

	Place of incorporation and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company	Principal activities
ThinSoft Investment Inc ("ThinSoft BVI")	British Virgin Islands ("BVI")/ Hong Kong	US$100 ordinary	100 *	Investment holding
ThinSoft Inc	BVI/ Hong Kong	US$1 ordinary	100	Holding of intellectual properties
ThinSoft Pte Ltd	Singapore	S$1,500,000 ordinary	100	Development and distribution of Thin Computing solutions and related products
ThinSoft (USA) Inc#	United States of America	US$0.01 ordinary	100	Development and distribution of Thin Computing solutions and related products

* Shares held directly by the Company.

\# Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

15. Available-for-sale Investment

	Group	
	2006	2005
	HK$	HK$
Unlisted equity investment, at cost	**757,875**	757,875
Exchange realignments	**59,646**	–
	817,521	757,875

The investment consists of an investment in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

As at 31 December 2006 and 2005, the carrying amount of the unlisted equity investment of the Group was stated at cost less any accumulated impairment losses because the variability in the range of reasonable fair value estimates is so significant that the directors are of the opinion that the probabilities of the various estimates required to arrive at the fair value cannot be measured reliably.

16. Deferred Tax Assets

The movements in deferred tax assets during the year are as follows:

Group

	Depreciation in excess of related depreciation allowance	**Losses available for offset against future taxable profit**	**Total**
	HK$	HK$	HK$
At 1 January 2005	–	–	–
Deferred tax credited to the income statement during the year *(note 9)*	122,126	3,255,274	3,377,400
At 31 December 2005	122,126	3,255,274	3,377,400
Deferred tax charged to the income statement during the year *(note 9)*	(63,821)	(664,309)	(728,130)
At 31 December 2006	**58,305**	**2,590,965**	**2,649,270**

17. Inventories

	Group	
	2006	2005
	HK$	HK$
Raw materials	**328,560**	474,076
Finished goods	**3,731**	14,899
	332,291	488,975

18. Accounts Receivable

The Group's trading terms with its customers are mainly payment in advance, except for major customers, where payment is on credit. The credit period is generally 30 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Accounts receivable are non-interest-bearing.

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

	Group	
	2006	2005
	HK$	HK$
Within 30 days	**403,566**	447,895
Between 31 to 60 days	**8,817**	11,689
Between 61 to 90 days	**3,701**	–
Between 91 to 180 days	**–**	6,862
	416,084	466,446

19. Cash and Cash Equivalents

	Group		Company	
	2006	2005	**2006**	2005
	HK$	HK$	**HK$**	HK$
Cash and bank balances	**1,188,809**	785,714	**352,613**	238,228
Time deposits	**34,869,956**	26,869,566	**2,751,680**	1,714,146
	36,058,765	27,655,280	**3,104,293**	1,952,374

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

20. Accounts Payable

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

	Group	
	2006	2005
	HK$	HK$
Within 30 days	**17,808**	160,070
Between 31 to 60 days	**1,658**	68,977
Between 61 to 90 days	**1,612**	89
Between 91 to 180 days	**371,837**	10,660
	392,915	239,796

The accounts payable are non-interest-bearing and are normally settled on 30 to 90 days terms.

21. Due to Ultimate Holding Company

The balance is unsecured, interest-free and has no fixed terms of repayment.

The carrying amount of the amount due approximates to its fair value.

22. Share Capital

Shares

	Number of ordinary shares of HK$0.05 each	Nominal value HK$
Authorised:		
At 1 January 2005, 31 December 2005, 1 January 2006 and 31 December 2006	2,000,000,000	100,000,000
Issued and fully paid:		
At 1 January 2005, 31 December 2005, 1 January 2006 and 31 December 2006	501,255,000	25,062,750

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 23 to the financial statements.

23. Share Option Schemes

(i) Pre-IPO share option scheme

The Company operates a pre-IPO share option scheme (the "Pre-Scheme"). On 2 February 2002, the Pre-Scheme was approved pursuant to a written resolution of the sole shareholder of the Company. The purpose of the Pre-Scheme is to recognise the contribution of certain directors, employees, consultants and advisers of the Group to the growth of the Group and/or the listing of the Company's shares on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "GEM"). The Company had granted pre-IPO share options to 26 employees (including four executive directors of the Company) of the Group to subscribe for a total of 52,600,000 shares, representing in aggregate approximately 10.52% of the then issued share capital of the Company immediately following the completion of the placing and the capitalisation issue, at a subscription price ranging from 20% to 70% of HK$0.40 per share, the issue price. No further share options would be granted under the Pre-Scheme after listing of the Company's shares on the GEM. All these share options were granted on 2 February 2002 and may be exercised in the following manner:

(a) 50% of the share options so granted to him/her (rounded down to the nearest whole number) after the expiry of 12 months from 27 February 2002 on which the shares are first listed on the GEM;

(b) 25% of the share options so granted to him/her (rounded down to the nearest whole number) after the expiry of 24 months from 27 February 2002; and

(c) the remaining 25% of the share options so granted to him/her (rounded down to the nearest whole number) after the expiry of 36 months from 27 February 2002,

and in each case, not later than five years from 2 February 2002 (date of acceptance of the share options).

Each grantee has paid HK$1 to the Company as the consideration for such grant.

The Pre-Scheme remains in force for a period of 10 years with effect from 2 February 2002.

23. Share Option Schemes (continued)

(i) Pre-IPO share option scheme (continued)

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

	Number of share options					Exercise price
Name of participant	At 1 January 2006	Exercised during the year	Lapsed during the year	At 31 December 2006	Exercise period of share options	of share options (*Note*) HK$
Directors						
Ngiam Mia Hai Bernard	3,800,000	–	–	3,800,000	27 February 2003 to 1 February 2007	0.08
	1,900,000	–	–	1,900,000	27 February 2004 to 1 February 2007	0.08
	1,900,000	–	–	1,900,000	27 February 2005 to 1 February 2007	0.08
	7,600,000	–	–	7,600,000		
Ngiam Mia Hong Alfred	3,600,000	–	–	3,600,000	27 February 2003 to 1 February 2007	0.08
	1,800,000	–	–	1,800,000	27 February 2004 to 1 February 2007	0.08
	1,800,000	–	–	1,800,000	27 February 2005 to 1 February 2007	0.08
	7,200,000	–	–	7,200,000		
Former director						
William Michael Driscoll	1,800,000	–	–	1,800,000	27 February 2003 to 1 February 2007	0.08
	900,000	–	–	900,000	27 February 2004 to 1 February 2007	0.08
	900,000	–	–	900,000	27 February 2005 to 1 February 2007	0.08
	3,600,000	–	–	3,600,000		

23. Share Option Schemes (continued)

(i) Pre-IPO share option scheme (continued)

The following share options were outstanding under the Pre-Scheme during the year (continued):

Name of participant	At 1 January 2006	Exercised during the year	Lapsed during the year	At 31 December 2006	Exercise period of share options	Exercise price of share options (Note) HK$
	Number of share options					
Directors of subsidiaries						
Ngiam Mia Je Patrick	1,800,000	–	–	1,800,000	27 February 2003 to 1 February 2007	0.08
	900,000	–	–	900,000	27 February 2004 to 1 February 2007	0.08
	900,000	–	–	900,000	27 February 2005 to 1 February 2007	0.08
	3,600,000	–	–	3,600,000		
Ngiam Mia Kiat Benjamin	1,800,000	–	–	1,800,000	27 February 2003 to 1 February 2007	0.08
	900,000	–	–	900,000	27 February 2004 to 1 February 2007	0.08
	900,000	–	–	900,000	27 February 2005 to 1 February 2007	0.08
	3,600,000	–	–	3,600,000		
Lauw Hui Kian	1,800,000	–	–	1,800,000	27 February 2003 to 1 February 2007	0.08
	900,000	–	–	900,000	27 February 2004 to 1 February 2007	0.08
	900,000	–	–	900,000	27 February 2005 to 1 February 2007	0.08
	3,600,000	–	–	3,600,000		

23. Share Option Schemes (continued)

(i) Pre-IPO share option scheme (continued)

The following share options were outstanding under the Pre-Scheme during the year (continued):

Name of participant	Number of share options: At 1 January 2006	Exercised during the year	Lapsed during the year	At 31 December 2006	Exercise period of share options	Exercise price of share options (Note) HK$
Other employees						
In aggregate	8,095,000	–	–	8,095,000	27 February 2003 to 1 February 2007	0.08
	4,275,000	–	–	4,275,000	27 February 2004 to 1 February 2007	0.08
	4,275,000	–	–	4,275,000	27 February 2005 to 1 February 2007	0.08
	16,645,000	–	–	16,645,000		
	500,000	–	–	500,000	27 February 2003 to 1 February 2007	0.20
	650,000	–	–	650,000	27 February 2004 to 1 February 2007	0.20
	650,000	–	–	650,000	27 February 2005 to 1 February 2007	0.20
	1,800,000	–	–	1,800,000		
	47,645,000	–	–	47,645,000		

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

Subsequent to the balance sheet date, all the share options outstanding under the Pre-Scheme had lapsed upon expiration.

(ii) Post-IPO share option scheme

On 2 February 2002, a further share option scheme (the "Post-Scheme") was approved pursuant to a written resolution of the Company. The purpose of the Post-Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Post-Scheme include directors of the Company or any of its subsidiaries, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, and any minority shareholder in the Company's subsidiaries.

The total number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Post-Scheme and other schemes (including the Pre-Scheme) of the Company must not exceed 30% of the shares in issue at any time. A nominal consideration of HK$1 is payable by the grantee upon acceptance of an option.

23. Share Option Schemes (continued)

(ii) Post-IPO share option scheme (continued)

The subscription price for shares under the Post-Scheme may be determined by the board of directors at its absolute discretion but in any event will not be less than the higher of: (i) the nominal value of the shares; (ii) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day; and (iii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the relevant share option.

Any grant of share options to a director, chief executive, management shareholder or substantial shareholder of the Company or any of their respective associates must be approved by the independent non-executive directors (excluding the independent non-executive director who is the grantee). Any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting. In addition, any share options granted to any one person in excess of 1% of the shares of the Company in issue at any time within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The share options granted may be exercised at any time during the period commencing immediately after the date on which the option is deemed to be granted and accepted and expiring on a date to be determined and notified by the board of directors which shall not be more than 10 years from the date on which the share option is deemed to be granted and accepted. The Post-Scheme remains in force for a period of 10 years with effect from 2 February 2002. No share options were granted by the Company under the Post-Scheme during the year and up to the date of approval of these financial statements.

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

24. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 21 of the financial statements.

The share premium account of the Group represents the excess of proceeds received over the nominal value of the Company's shares issued, less amounts of the capitalisation issue and share issue expenses.

The capital reserve of the Group represents the difference between the aggregate nominal value of share capital of the subsidiaries acquired by the Company pursuant to the Group reorganisation prior to the listing of the Company's shares over the nominal value of share capital of the Company issued as consideration in exchange therefor.

24. Reserves (continued)

(b) Company

	Share premium account HK$ (Note)	Accumulated losses HK$	Total HK$
At 1 January 2005	21,341,236	(26,868,446)	(5,527,210)
Profit for the year *(note 10)*	–	2,841,578	2,841,578
At 31 December 2005 and 1 January 2006	21,341,236	(24,026,868)	(2,685,632)
Loss for the year *(note 10)*	–	(2,495,618)	(2,495,618)
At 31 December 2006	**21,341,236**	**(26,522,486)**	**(5,181,250)**

Note: The share premium account of the Company includes: (i) the shares of the Company issued at a premium; and (ii) the excess of the then consolidated net assets of the subsidiaries acquired pursuant to the Group reorganisation over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

25. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and bank balances and short-term time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable and accounts payable, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity 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 Group does not hold or issue derivative financial instruments for trading purposes. The directors review and agree policies for managing each of these risks and they are summarised as follows:

(i) Fair value and cash flow interest rate risks

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to fair value and cash flow interest rate risks is minimal as the Group does not have any long term financial assets and liabilities.

(ii) Foreign currency risk

The Group's monetary assets and transactions are principally denominated in Hong Kong Dollars ("HKD"), United States Dollars ("USD") and Singapore Dollars ("SGD"). The Group is exposed to foreign exchange risk arising from the exposure of HKD against USD and SGD, respectively. Considering that the exchange rate between HKD and USD is pegged, and that there is insignificant fluctuation in the exchange rate between HKD and SGD, the Group believes its exposure to exchange rate risk is nominal. At present, the Group does not intend to seek to hedge its exposure to foreign exchange risk profile, and will consider appropriate hedging measures in future as may be necessary.

31 December 2006

25. Financial Risk Management Objectives and Policies (continued)

(iii) Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. The Group's exposure to bad debts is not significant as most of the customers paid by credit cards.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and available-for-sale financial assets, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

(iv) Liquidity risk

The Group will consistently maintain a prudent financial policy and ensure that it maintains sufficient cash to meet its liquidity requirements.

26. Operating Lease Arrangements

At 31 December 2006 and 2005, the Company did not enter into any non-cancellable operating lease arrangement.

At 31 December 2006, the Group did not enter into any non-cancellable operating lease arrangement.

At 31 December 2005, the Group leased certain of its office premises under operating lease arrangements. Leases for properties were negotiated for a term of within one year. The Group had total future minimum lease payments of HK$7,020 under non-cancellable operating leases falling due within one year.

At 31 December 2006 and 2005, the Company and the Group had no other significant commitments.

27. Related Party Transactions

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

(a) Transactions with related parties

	Notes	2006 HK$	2005 HK$
IPC:			
Purchases	(i)	**3,018**	837
Operating lease rentals in respect of land and buildings	(ii)	**352,166**	338,400
Management fees	(iii)	**176,083**	169,200

Notes:

(i) The directors of the Company have confirmed that the prices and terms of these sale and purchase transactions are similar to those entered into with independent third parties.

(ii) The rental expenses were determined based on the then fair market value.

(iii) The management fees were paid at S$3,000 (approximately equivalent to HK$14,674) (2005: HK$14,100) per month. The management fees were charged with reference to the costs incurred in respect of, inter alia, the provision of office space and equipment and other overheads.

In the opinion of the directors of the Company, the above related party transactions were entered into by the Group in the ordinary course of business.

(b) Compensation of key management personnel of the Group

	2006 HK$	2005 HK$
Short term employee benefits	**2,523,868**	2,442,800
Post-employment benefits	**68,672**	73,320
Total compensation paid to key management personnel	**2,592,540**	2,516,120

28. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 8 February 2007.

FIVE YEAR FINANCIAL SUMMARY

The following is a summary of the consolidated results and of the consolidated assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements.

Results

	Year ended 31 December				
	2006	2005	2004	2003	2002
	HK$	HK$	HK$	HK$	HK$
REVENUE	**20,580,131**	17,405,935	17,972,049	19,215,548	15,554,668
Cost of sales	**(3,891,040)**	(3,648,676)	(15,435,204)	(18,334,948)	(9,955,463)
Gross profit	**16,689,091**	13,757,259	2,536,845	880,600	5,599,205
Other income	**1,256,948**	539,959	292,062	286,533	492,307
Selling and distribution costs	**(650,603)**	(415,879)	(123,245)	(282,116)	(1,275,472)
Administrative expenses	**(11,018,061)**	(8,715,654)	(10,261,072)	(12,680,828)	(14,025,955)
Other operating expenses	**–**	(16,741)	(247,855)	–	(32,768)
Finance costs	**–**	–	–	–	452,494
PROFIT/(LOSS) BEFORE TAX	**6,277,375**	5,148,944	(7,803,265)	(11,795,811)	(8,790,189)
Tax	**(1,500,810)**	3,173,876	112,321	231,447	543,587
PROFIT/(LOSS) FOR THE YEAR	**4,776,565**	8,322,820	(7,690,944)	(11,564,364)	(8,246,602)

Assets and Liabilities

	31 December				
	2006	2005	2004	2003	2002
	HK$	HK$	HK$	HK$	HK$
Non-current assets	**3,466,791**	4,136,638	4,959	8,508,996	15,681,504
Current assets	**37,819,249**	28,932,146	23,990,639	23,185,932	28,758,672
Current liabilities	**(7,214,364)**	(5,037,548)	(4,287,182)	(4,915,548)	(6,925,298)
	34,071,676	28,031,236	19,708,416	26,779,380	37,514,878