Xteam Software International Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8178

2006

ANNUAL REPORT

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

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board 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 of the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this report.

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

Contents

	Pages
Corporate Information	2
Corporate Structure	3
Chairman's Statement	4
Management Discussion and Analysis	5
Biographical Information of Directors and Senior Management	7
Report of the Directors	10
Corporate Governance Report	18
Independent Auditors' Report	22
Consolidated Income Statement	24
Consolidated Balance Sheet	25
Consolidated Statement of Changes in Equity	26
Consolidated Cash Flow Statement	27
Balance Sheet	28
Notes to Financial Statements	29
Five Year Financial Summary	72

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Ms. Ng Weng Sin

QUALIFIED ACCOUNTANT

Ms. Ng Weng Sin

COMPLIANCE OFFICER

Mr. Wang Dong Bin

AUTHORISED REPRESENTATIVES

Mr. Wang Dong Bin
Ms. Ng Weng Sin

REMUNERATION COMMITTEE

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

AUDIT COMMITTEE

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

AUDITORS

Ernst & Young

LEGAL ADVISORS

Conyers Dill & Pearman

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 3401, West Tower, Shun Tak Centre
200 Connaught Road Central, Sheung Wan
Hong Kong

REGISTERED OFFICE

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

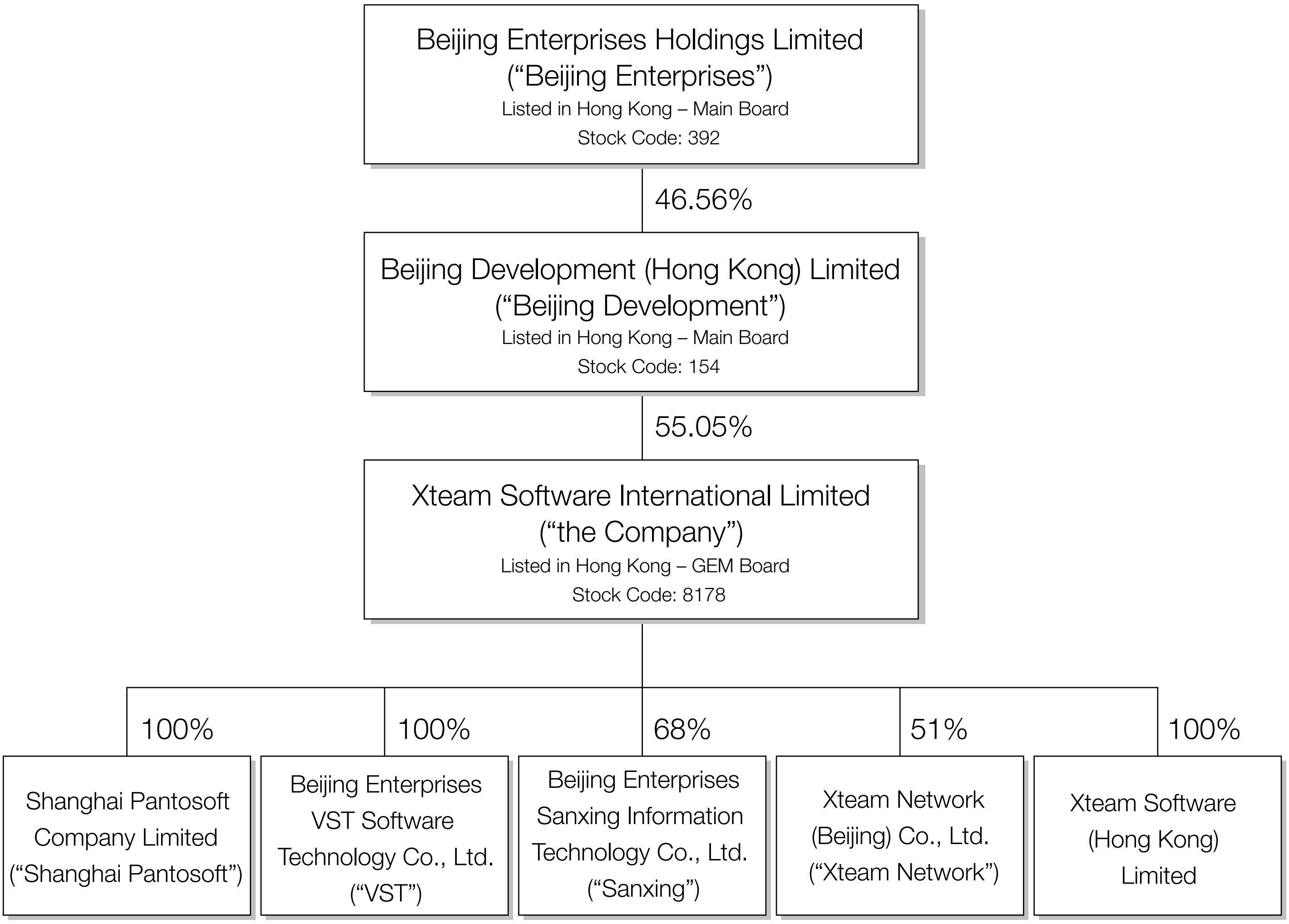
GEM STOCK CODE

8178

WEB-SITE ADDRESS

Xteamlinux.com.hk

Corporate Structure



Note: Place of operations:

Shanghai Pantosoft Company Limited	:	Shanghai
Beijing Enterprises VST Software Technology Co., Ltd.	:	Beijing
Beijing Enterprises Sanxing Information Technology Co., Ltd.	:	Beijing
Xteam Network (Beijing) Co., Ltd.	:	Beijing
Xteam Software (Hong Kong) Limited	:	Hong Kong

As at 31 December 2006

BUSINESS REVIEW

The upward trend of China's economy continued in 2006. Substantial demand for software development, such as software design and development, upgrades and maintenance, was recorded.

For the year ended 31 December 2006, the turnover of the Group was approximately HK$42,075,000, representing a decrease of approximately HK$24,816,000, or 37.1%, as compared with approximately HK$66,891,000 in last year. The decrease was due to a drop in income from the sale of hardware and the provision of software development and system integration services. On the contrary, income from the provision of technical support and maintenance services slightly increased by approximately HK$955,000, or 6.1%. The income from the provision technical support and maintenance services, most of which arose from after-sale services from software development, was relatively stable.

PROSPECTS

According to the latest PRC Government report, the growth rate of China's GDP is expected to be approximately 8% in 2007. Moreover, system upgrade for higher efficiency is required to prepare for the 2008 Olympic Games to be held in Beijing and to cope with the continuous economic growth. Therefore, demand for software upgrade and maintenance is expected to be high. The improvement in education and living standard will also trigger a wider spread in software application. Besides, In@box, which provides internet services to small and medium enterprises, is expected to contribute to the Group's earnings.

STRATEGIES

Business operation: In order to expand and maintain the income of maintenance and technical support services, we endeavour to put more efforts on software development as maintenance and technical support services can contribute a relatively stable income to the Group. We will continue to provide customers with software upgrade services. With enhanced service efficiency and provision of value-added services, our close relationship with customers and their loyalty can be maintained.

Market expansion: As a Beijing-based company and with the support from the Government, we aim to promote our brandname and develop our business in other regions in China.

APPRECIATION

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

By order of the Board
Li Kang Ying
Chairman

Hong Kong, 22 March 2007

FINANCIAL REVIEW

Turnover and profit margin

The Group recorded a consolidated turnover of approximately HK$42,075,000 for the year ended 31 December 2006, representing a decrease of 37.1% as compared with approximately HK$66,891,000 in last year.

The Group's gross profit margin amounted to 55.7% for the year ended 31 December 2006, representing a slight decrease of 2% as compared with 57.7% in the previous year. This was mainly due to a decrease of income from provision of software development and system integration services of approximately HK$19,443,000, or 43.2%.

Expenses

The expenses incurred for the year ended 31 December 2006 was approximately HK$245,650,000, representing an increase of approximately HK$218,061,000, or 7.9 times, as compared with approximately HK$27,589,000 of the corresponding year. The increase was mainly due to the impairment of goodwill of approximately HK$210,759,000 and the impairment of trade and other receivables of approximately HK$2,759,000.

Equity holders of the parent company

The loss attributable to shareholders for the year ended 31 December 2006 was approximately HK$220,247,000, compared to a profit of HK$10,065,000 in 2005.

Liquidity, financial resources and debt ratio

As at 31 December 2006, the Group had cash and bank balances of approximately HK$39,655,000 (2005: HK$30,949,000) and no outstanding bank loan (2005: Nil).

The gearing ratio (calculated as total liabilities over equity) of the Group as at 31 December 2006 was approximately 19.6% (2005: approximately 7.3%). The increase was mainly due to the impairment of goodwill of approximately HK$210,759,000.

The debt ratio (calculated as total liabilities over total assets) of the Group as at 31 December 2006 was approximately 16.4% (2005: approximately 6.8%). The increase was mainly due to the impairment of goodwill of approximately HK$210,759,000.

EXPOSURE TO EXCHANGE RATE FLUCTUATION AND HEDGING ACTIVITIES

As the Group operates in China and substantially all of its business transactions, assets and liabilities are denominated in Renminbi, the exchange rate risk of the Group is considered minimal and no hedging activities have been conducted.

CAPITAL STRUCTURE

As at 31 December 2006, there was no change in the capital structure of the Group as compared to last year.

CONTINGENT LIABILITIES

As at 31 December 2006, the Group did not have any material contingent liabilities (2005: Nil).

PLEDGE OF ASSETS

As at 31 December 2006, the Group did not have any pledge on its assets (2005: Nil).

STAFF

As at 31 December 2006, the Group employed approximately 330 employees, including directors of Company (2005: approximately 350). Our employees are entitled to remunerations, which are consistent with market rates, and benefits such as pension schemes, employee share options and medical insurance. Total staff costs for the year were approximately HK$18,899,000 (2005: approximately HK$17,683,000).

EXECUTIVE DIRECTORS

Mr. LI Kang Ying, aged 50, is the chairman of the Board of Directors and also the executive director and president of Beijing Development. Mr. Li graduated from North China University of Electric Power majoring in telecommunications and is a qualified engineer in the PRC. He was a university lecturer and a member of the governmental research institute and has been responsible for the management and operational affairs in the technological field for the past decade. Mr. Li joined the Group in August 2004.

Mr. WANG Dong Bin, aged 39, is the chief executive officer of the Company. Mr. Wang graduated from Tsinghua University in 1992 with a master's degree in Applied Physics. Mr. Wang has over 14 years' experience in the telecommunications and information technology field and he joined the Group in August 2004.

Mr. CAO Wei, aged 43, is the executive director and vice president of Beijing Development. Mr. Cao graduated from Harbin Industrial University and has over 16 years' experience in the telecommunications and information technology field. Mr. Cao joined the Group in August 2004.

Mr. E Meng, aged 48, is the executive director and vice president of Beijing Enterprises, the executive director of Beijing Development and the independent non-executive director of Macro-Link International Holdings Limited (stock code: 472). Mr. E graduated from China Science and Technology University with a master's degree in engineering, and is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. From 1988 to 1997, Mr. E was the deputy director of Beijing New Technology Development Zone ("BNTDZ"), the director for BNTDZ Department of Finance Auditing and State Asset Management, the manager of BNTDZ Investment Operation Company, the director of Beijing Tianping Accounting Firm and the deputy director of the State Asset Management Office of Beijing Haidian District. Mr. E has over 16 years' experience in economics, finance and enterprise management. Mr. E joined the Group in August 2004.

Mr. YAN Qing, aged 45, is the deputy general manager of Beijing Development. Mr. Yan graduated from The First Branch Campus of Renmin University of China in 1985 with a bachelor's degree in Business. He also obtained a master's degree in Business Administration from University of South Australia in 2005 and he has over 16 years of experience in finance and management. Mr. Yan joined the Group in January 2005.

Mr. NG Kong Fat, Brian, aged 51, is the executive director of Beijing Development. Mr. Ng graduated from the University of Stirling in Scotland in 1983 and is a member of the Institute of Chartered Accountants of Scotland. Mr. Ng has over 21 years' experience in corporate, investment and financial management. He joined the Group in August 2004.

Ms. CHEN Zhi, aged 35, graduated from Fudan University, Shanghai in 1992. Ms. Chen has over 11 years of experience in marketing, financial, corporate and human resources management in the information technology field in the PRC and Canada. She joined the Group in August 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. MA Yu Hua, aged 58, graduated from Beijing Financial College. Ms. Ma was the general manager of Beijing International Trust and Investment Co., Ltd. and was responsible for the financial department of Beijing Economic Construction Company. Ms. Ma has over 30 years' extensive experiences in financial management and investment and she is currently the president of Guodu Securities Company Limited. Ms. Ma joined the Group in December 2004.

Ms. LIANG Ye Ping, aged 58, graduated from China Communist Party's School and School of Economics and Management of Tsinghua University. Ms. Liang is currently the chairman of 北京市管理科學院, a senior consultant and lecturer of 北京格魯管理培訓有限公司 and a council member of the China Enterprise Directors Association. Ms. Liang was the president of various companies such as China Xingfa Group Co., Ltd., Beijing Guoxinan IC Design Co., Ltd., Nanjing Jiangning Digital Harbor Co., Ltd., etc. in which she has accumulated extensive experiences in operation, management and information technology. Ms. Liang joined the Group in December 2004.

Mr. JIANG Qi Ping, aged 44, graduated from Tianjin Nan Kai University in 1984. Mr. Jiang is currently the general secretary of the Information Research Centre of Chinese Academy of Social Sciences and is responsible for the research and development on information integration standard for the government, enterprises, manufacturers, e-business, e-government, etc. In 1999, Mr. Jiang was awarded with the "Man of the Time" and the "10 Most Outstanding Internet Persons of the Year" by Beijing Youth Newspaper. Mr. Jiang is also one of the IT commentators and an honorary chief editor of China Internet Weekly magazine and has several publications on information technology such as《信息化測算的理論與方法》、《數字財富》and《新商業模型》etc. Mr. Jiang joined the Group in December 2004.

SENIOR MANAGEMENT

Mr. LI Ji Cheng, aged 42, is the chief executive of VST. He graduated from Tianjin University with a bachelor's degree and obtained a master's degree in 1988. Mr. Li was a university lecturer and has over 14 years of experience in project management and information technology. Mr. Li joined the Group in August 2004.

Ms. ZHENG Shao Hua, aged 50, is the general manager of Sanxing. Ms. Zheng graduated from Beihang University in 1983. She has over 20 years of experience in project management and information technology. Ms. Zheng joined the Group in August 2004.

Mr. PENG Wen Sheng, aged 38, is the chairman of Shanghai Pantosoft. Mr. Peng graduated from the Engineering Faculty of Nanjing University of Science & Technology in 1987 with a bachelor degree in Science. He also obtained a master degree in Science in Huazhong University of Technology in 1994. He joined the Group in December 2002.

Mr. ZHANG Da Jian, aged 39, is the general manager of Xteam Network, a subsidiary of the Company being established during the year. Mr. Zhang graduated from Beijing University of Technology in 1990. He has over 17 years of experience in information technology. Mr. Zhang joined the Group in December 2005.

Ms. CAO Mu Ya, aged 53, is the deputy general manager of the Company. Ms. Cao graduated from Beijing Administrative College. Ms. Cao joined Beijing Holdings Limited and Beijing Enterprises from 1988, she is the director and vice president of Beijing Enterprises Teletron Information Technology Co., Ltd. from 2001, she is also the director and financial controller of VST and Sanxing. Ms. Cao has over 20 years of experience in finance and corporate management. She joined the Group in March 2006.

Ms. Ng Weng Sin, aged 35, is the financial controller and company secretary of the Company. Ms. Ng graduated from the Hong Kong Polytechnic University with a bachelor's degree in Accountancy. She is a member of the Hong Kong Institute of Certified Public Accountants and fellow member of the Association of Chartered Certified Accountants, Ms. Ng has over 10 years' experience in auditing, accounting and finance in an international accounting firm and listed companies. She joined the Group in May 2006.

The directors present their report and the audited financial statements of the Company and 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 loss for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 24 to 71.

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 72. 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 were no movements in either the Company's authorised or issued share capital during the year. Details of movements in the Company's share capital and share options are set out in notes 24 and 25 to the financial statements, respectively.

RESERVES

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

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company's reserves including the share premium account, available for cash distribution and/or distribution in specie, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK$80,840,000. Under the laws of the Cayman Islands, a company may make distributions to its members out of the share premium account under certain circumstances.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 44.3% of the total sales for the year and sales to the largest customer included therein amounted to 20.9%. Purchases from the Group's five largest suppliers accounted for 31.3% of the total purchases for the year and purchases from the largest supplier included therein amounted to 10.7%.

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

DIRECTORS

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

Executive directors:

Mr. Li Kang Ying	
Mr. Wang Dong Bin	(appointed on 14 March 2006)
Mr. Cao Wei	
Mr. E Meng	
Mr. Yan Qing	(appointed on 14 March 2006)
Mr. Ng Kong Fat, Brian	
Ms. Chen Zhi	
Mr. Zhang Hong Hai	(resigned on 14 March 2006)
Mr. Ma Gary Ming Fai	(resigned on 26 April 2006)

Independent non-executive directors:

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

In accordance with articles 86(3), 87(1) and 87(2) of the Company's articles of association, Mr. Li Kang Ying, Mr. E Meng, Mr. Ng Kong Fat, Brian and Ms. Chen Zhi will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. Each of the independent non-executive directors is appointed for a period of three years commencing from their appointment dates.

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

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group as well as the recommendation of the remuneration committee. Further details of the Company's remuneration committee are set out in the corporate governance report on pages 18 to 21 of the annual report.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2006, the interests and short positions of the directors in the share capital and underlying shares of the Company's associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

(1) Long positions in shares of associated corporations:

Name of director	Name of associated corporation	Relationship with the Company	Number of shares held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Mr. Wang Dong Bin	Beijing Development	Company's holding company	8,000,000	Directly beneficially owned	1.35
Mr. Cao Wei	Beijing Development	Company's holding company	8,000,000	Directly beneficially owned	1.35
Mr. Ng Kong Fat, Brian	Beijing Development	Company's holding company	8,792,755	Through a controlled corporation *(Note)*	1.49
Mr. Ng Kong Fat, Brian	BD Ah Yat Abalone Group Limited	Company's fellow subsidiary	1,462,000	Directly beneficially owned	21.5

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

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

(2) Interests in underlying shares of associated corporations:

At 31 December 2006, the interests of directors in options to subscribe for shares of Beijing Development, the Company's holding company, under the share option schemes of Beijing Development were as follows:

	Number of options held	
Name of director	*Note (a)*	*Note (b)*
Mr. Li Kang Ying	2,700,000	800,000
Mr. Wang Dong Bin	500,000	700,000
Mr. Cao Wei	2,500,000	500,000
Mr. Ng Kong Fat, Brian	1,200,000	1,600,000
Mr. E Meng	1,200,000	1,600,000
Mr. Yan Qing	–	2,500,000

Notes:

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

(b) These options were granted on 27 June 2006 at an exercise price of HK$1.00 per share. The options may be exercised at any time commencing on 27 June 2006 and, if not otherwise exercised, will lapse on 17 June 2011. No such options were exercised during the year.

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

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

Save as disclosed above, as at 31 December 2006, none of the directors or chief executive had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2006, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in ordinary shares of the Company:

Name	*Notes*	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Beijing Development	*(a)*	Through controlled corporations	2,115,513,445	55.05
Mr. Chung Kwok Ho	*(b)*	Through a controlled corporation	382,864,129	9.96
Ms. Lee Man Yee	*(c)*	Interest of spouse	382,864,129	9.96
Cosmos Vantage Limited	*(d)*	Directly beneficially owned	382,864,129	9.96

Notes:

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

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

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

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

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

Long positions in ordinary shares of the Company: *(Continued)*

Save as disclosed above, as at 31 December 2006, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONTINUING CONNECTED TRANSACTION

The Group entered into the following continuing connected transaction (other than the continuing connected transactions that are exempted under Rule 20.33 of the Listing Rules) during the year ended 31 December 2006:

Pursuant to the Master Agreement dated 16 August 2004 entered into between the Company and its subsidiaries and Beijing Development and its subsidiaries in connection with the subcontracting of services, the Group received service income amounting to HK$1,680,000 during the year.

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

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

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

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

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

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

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

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

COMPETING INTERESTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 31 to the financial statements.

CORPORATE GOVERNANCE

The Company's corporate governance report is set out on pages 18 to 21.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Li Kang Ying
Chairman

Hong Kong
22 March 2007

CODE OF CORPORATE GOVERNANCE PRACTICES OF THE GEM LISTING RULES

The Company has applied the principles and complied with the code provisions set out in the Code of Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules for the year ended 31 December 2006.

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 ten directors, is responsible for corporate strategy, annual, interim and quarterly 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, interim and quarterly accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the board of directors, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Details of backgrounds and qualifications of the chairman of the Company and the other directors are set out on pages 7 and 8. All directors have given sufficient time and attention to the affairs of the Group. Each executive director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. Mr. Li Kang Ying is the chairman of the board of directors and an executive director and Mr. Wang Dong Bin is the chief executive officer of the Company and an executive director. There is no relationship among the members of the board of directors.

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

BOARD OF DIRECTORS AND BOARD MEETING *(Continued)*

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

In 2006, four board meetings were held. The directors' attendance at board meetings during the year is set out below:

	Attendance/ No. of meeting held
Executive directors:	
Mr. Li Kang Ying *(Chairman)*	4/4
Mr. Wang Dong Bin *(Chief executive officer)*	4/4
Mr. Cao Wei	4/4
Mr. E Meng	3/4
Mr. Yan Qing	4/4
Mr. Ng Kong Fat, Brian	3/4
Ms. Chen Zhi	3/4
Mr. Zhang Hong Hai*	0/4
Mr. Ma Gary Ming Fai**	1/4
Independent non-executive directors:	
Ms. Ma Yu Hua	4/4
Ms. Liang Ye Ping	4/4
Mr. Jiang Qi Ping	4/4

* Mr. Zhang Hong Hai resigned on 14 March 2006 and there was no board meeting held on or before 14 March 2006.

** Mr. Ma Gary Ming Fai resigned on 26 April 2006 and was only entitled to attend one board meeting.

REMUNERATION OF DIRECTORS

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

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

No meeting was held during the year.

NOMINATION OF DIRECTORS

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

On 14 March 2006, the board has nominated Mr. Li Kang Ying as Chairman, Mr. Wang Dong Bin as executive director and chief executive officer and Mr. Yan Qing as executive director of the Company.

AUDIT COMMITTEE

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

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

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

The Group's unaudited quarterly and interim results and annual audited results during the year ended 31 December 2006 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

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 paid an aggregate of approximately HK$844,000 to the external auditors (of which HK$780,000 has paid to Ernst & Young, and HK$64,000 was paid to the PRC auditors) for their services in audit. There was no significant non-audit service assignment undertaken by auditors during the year.

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 meetings periodically to discuss financial, operational and risk management control. The audit committee also reviewed the internal control systems and evaluated their adequacy, effectiveness and compliance on a regular basis.

ERNST & YOUNG
安 永 會 計 師 事 務 所

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

We have audited the financial statements of Xteam Software International Limited set out on pages 24 to 71, 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 loss 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
18/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong
22 March 2007

Consolidated Income Statement

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
REVENUE	5	**42,075**	66,891
Cost of sales and services		**(18,645)**	(28,294)
Gross profit		**23,430**	38,597
Other income and gains	5	**1,923**	4,938
Selling and distribution costs		**(8,532)**	(6,200)
Administrative expenses		**(22,837)**	(21,076)
Other expenses		**(2,964)**	–
Impairment of goodwill	15	**(210,759)**	–
Finance costs	7	**(558)**	(313)
PROFIT/(LOSS) BEFORE TAX	6	**(220,297)**	15,946
Tax	10	**(2,066)**	(444)
PROFIT/(LOSS) FOR THE YEAR		**(222,363)**	15,502
Attributable to:			
Equity holders of the parent	11	**(220,247)**	10,065
Minority interests		**(2,116)**	5,437
		(222,363)	15,502
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
– Basic		**HK (5.73) cents**	HK 0.27 cents
– Diluted		**N/A**	N/A

Consolidated Balance Sheet

31 December 2006

	Notes	**2006** **HK$'000**	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**4,883**	4,087
Goodwill	*15*	**78,706**	289,465
Other intangible assets	*16*	**3,040**	2,174
Total non-current assets		**86,629**	295,726
CURRENT ASSETS			
Inventories	*17*	**3,726**	2,863
Trade receivables	*18*	**29,642**	48,840
Prepayments, deposits and other receivables	*19*	**8,352**	8,800
Cash and bank balances		**39,655**	30,949
Total current assets		**81,375**	91,452
CURRENT LIABILITIES			
Trade payables	*20*	**3,500**	3,739
Other payables and accruals	*21*	**9,109**	10,123
Due to holding company	*22*	**12,913**	12,181
Tax payable		**2,089**	245
Total current liabilities		**27,611**	26,288
NET CURRENT ASSETS		**53,764**	65,164
Net assets		**140,393**	360,890
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	*24*	**38,426**	38,426
Reserves	*26(a)*	**91,601**	309,495
		130,027	347,921
Minority interests		**10,366**	12,969
Total equity		**140,393**	360,890

Li Kang Ying
Director

Wang Dong Bin
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2006

		Attributable to equity holders of the parent							
		Issued share capital	**Share premium account**	**Reserve funds**	**Exchange fluctuation reserve**	**Accumulated losses**	**Total**	**Minority interests**	**Total equity**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005		37,585	333,221	60	–	(39,265)	331,601	3,233	334,834
Exchange realignment		–	–	–	1,385	–	1,385	173	1,558
Profit for the year		–	–	–	–	10,065	10,065	5,437	15,502
Transfer to reserve funds		–	–	1,544	–	(1,544)	–	–	–
Issue of shares	*24*	841	4,039	–	–	–	4,880	–	4,880
Share issue expenses	*24*	–	(10)	–	–	–	(10)	–	(10)
Acquisition of a subsidiary	*27*	–	–	–	–	–	–	4,703	4,703
Dividends paid to minority shareholders		–	–	–	–	–	–	(577)	(577)
At 31 December 2005 and 1 January 2006		38,426	337,250*	1,604*	1,385*	(30,744)*	347,921	12,969	360,890
Exchange realignment		–	–	–	2,353	–	2,353	328	2,681
Loss for the year		–	–	–	–	(220,247)	(220,247)	(2,116)	(222,363)
Transfer to reserve funds		–	–	1,739	–	(1,739)	–	–	–
Dividends paid to minority shareholders		–	–	–	–	–	–	(815)	(815)
At 31 December 2006		**38,426**	**337,250***	**3,343***	**3,738***	**(252,730)***	**130,027**	**10,366**	**140,393**

* These reserve accounts comprise the reserves of HK$91,601,000 (2005: HK$309,495,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(220,297)**	15,946
Adjustments for:			
Bank interest income	5	**(184)**	(106)
Finance costs	7	**558**	313
Loss/(gain) on disposal of items of property, plant and equipment	5, 6	**73**	(48)
Amortisation of other intangible assets	6	**844**	206
Depreciation	6	**1,347**	1,328
Impairment of goodwill	15	**210,759**	–
		(6,900)	17,639
Decrease/(increase) in inventories		**(863)**	4,081
Decrease/(increase) in trade receivables		**19,198**	(10,465)
Decrease/(increase) in prepayments, deposits and other receivables		**448**	(2,155)
Increase/(decrease) in trade payables		**(239)**	1,729
Decrease in other payables and accruals		**(1,014)**	(3,923)
Cash generated from operations		**10,630**	6,906
Interest paid		**–**	(313)
Mainland China tax paid		**(248)**	(120)
Net cash inflow from operating activities		**10,382**	6,473
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**184**	106
Proceeds from disposal of items of property, plant and equipment		**101**	175
Purchases of items of property, plant and equipment	13	**(2,169)**	(1,503)
Additions to other intangible assets	16	**(1,639)**	(481)
Acquisition of a subsidiary	27	**–**	(415)
Net cash outflow from investing activities		**(3,523)**	(2,118)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in an amount due to holding company		**174**	9,266
Dividends paid to minority shareholders		**(815)**	(577)
Share issue expenses	24	**–**	(10)
Net cash inflow/(outflow) from financing activities		**(641)**	8,679
NET INCREASE IN CASH AND CASH EQUIVALENTS		**6,218**	13,034
Cash and cash equivalents at beginning of year		**30,949**	16,459
Effect of foreign exchange rate changes, net		**2,488**	1,456
CASH AND CASH EQUIVALENTS AT END OF YEAR		**39,655**	30,949
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**39,655**	30,949

Balance Sheet

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	14	**136,597**	326,668
CURRENT ASSETS			
Prepayments, deposits and other receivables	19	**1,537**	1,375
Cash and bank balances		**513**	9
Total current assets		**2,050**	1,384
CURRENT LIABILITIES			
Other payables and accruals	21	**837**	1,204
Due to a subsidiary	22	**5,631**	–
Due to holding company	22	**12,913**	12,181
Total current liabilities		**19,381**	13,385
NET CURRENT LIABILITIES		**(17,331)**	(12,001)
Net assets		**119,266**	314,667
EQUITY			
Issued capital	24	**38,426**	38,426
Reserves	26(b)	**80,840**	276,241
Total equity		**119,266**	314,667

Li Kang Ying
Director

Wang Dong Bin
Director

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The principal place of business of the Company is located at Room 3401, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong.

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

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

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

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, 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
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal change in the accounting policy is as follows:

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.

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

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

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangement

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.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HK(IFRIC)-Int 11 shall be applied for annual period beginning on or after 1 March 2007. The interpretation address how the share-based payment arrangements where (a) a parent grants rights to its equity instruments direct to the employees of its subsidiary; and (b) a subsidiary grants rights to equity instruments of its parents to its employee, should be accounted for in the financial statements of the subsidiary that receives services from the employees.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, and 1 January 2008, 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, HKFRS 7 and HK(IFRIC)-Int 11 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.

Goodwill

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets other than goodwill

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

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

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

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 an associate;

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

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

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

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

Intangible assets (other than goodwill)

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

Computer software and trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 and 20 years, respectively.

Research and development costs

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 commercial lives of the underlying products not exceeding two years, commencing from the date when the products are put into commercial production.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Operating leases

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

Financial assets

Financial assets in the scope of HKAS 39 are classified as loans and receivables, 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 considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 trade and other payables and an amount due to 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Cash and cash equivalents

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

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

Provisions

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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.

Employee benefits

Share-based payment transactions

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Share-based payment transactions *(Continued)*

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

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

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

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

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

Pension schemes

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to 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 the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

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

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

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

3. SIGNIFICANT ACCOUNTING ESTIMATES

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 assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was HK$78,706,000 (2005: HK$289,465,000), details of which are set out in note 15 to the financial statements.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2006, the best estimate of the carrying amount of the capitalised development costs was HK$956,000 (2005: Nil).

4. SEGMENT INFORMATION

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Revenue		
Sale of computer software and hardware	**75**	6,403
Provision of software development and system integration services	**25,513**	44,956
Provision of technical support and maintenance services	**16,487**	15,532
	42,075	66,891

	2006	2005
	HK$'000	*HK$'000*
Other income and gains		
Bank interest income	**184**	106
Gain on disposal of items of property, plant and equipment	**–**	48
PRC tax subsidy	**1,739**	4,717
Others	**–**	67
	1,923	4,938

6. PROFIT/(LOSS) BEFORE TAX

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

		Group	
		2006	2005
	Notes	***HK$'000***	*HK$'000*
Cost of inventories sold		**8,329**	18,558
Cost of services provided		**10,316**	9,736
Depreciation	*13*	**1,347**	1,328
Amortisation of other intangible assets*	*16*	**844**	206
Minimum lease payments under operating leases in respect of land and buildings		**2,936**	1,419
Auditors' remuneration		**844**	743
Employee benefits expense (including directors' remuneration *(note 8)*):			
Wages and salaries		**18,220**	16,986
Pension scheme contributions		**679**	697
		18,899	17,683
Foreign exchange differences, net		**133**	61
Impairment of trade and other receivables		**2,759**	–
Loss on disposal of items of property, plant and equipment		**73**	–

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

7. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Interest on loans from holding company *(note 22)*	**558**	313

8. DIRECTORS' REMUNERATION

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Fees	**340**	420
Other emoluments:		
Salaries, allowances and benefits in kind	**327**	124
Pension scheme contributions	**15**	–
	682	544

(a) Independent non-executive directors

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Ms. Ma Yu Hua	**100**	100
Ms. Liang Ye Ping	**100**	100
Mr. Jiang Qi Ping	**100**	100
	300	300

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

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2006				
Mr. Yan Qing	**–**	**327**	**15**	**342**
Mr. Ma Gary Ming Fai	**40**	**–**	**–**	**40**
	40	**327**	**15**	**382**
2005				
Mr. Li Kang Ying	–	62	–	62
Mr. Ma Gary Ming Fai	120	–	–	120
Mr. Cao Wei	–	62	–	62
	120	124	–	244

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year did not include any director (2005: Nil), details of whose remuneration are set out in note 8 above. Details of the remuneration of the five non-director, highest paid employees for the year are listed below.

9. FIVE HIGHEST PAID EMPLOYEES *(Continued)*

	Group	
	2006	2005
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**2,332**	1,553
Pension scheme contributions	**49**	96
	2,381	1,649

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

	Number of employees	
	2006	2005
Nil to HK$1,000,000	**5**	5

10. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2005: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the locations in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

	2006	2005
	HK$'000	*HK$'000*
Group:		
Current – Hong Kong	**–**	–
Current – Elsewhere		
Charge for the year	**2,066**	252
Underprovision in prior years	**–**	192
Total tax charge for the year	**2,066**	444

10. TAX *(Continued)*

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

Group – 2006

	Hong Kong		Mainland China		Total	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%
Loss before tax	**(216,846)**		**(3,451)**		**(220,297)**	
Tax at the statutory tax rate	**(37,948)**	**17.5**	**(1,139)**	**33.0**	**(39,087)**	**17.7**
Lower tax rate for specific provinces or local authority	**–**		**1,090**		**1,090**	
Income not subject to tax	**(8)**		**(226)**		**(234)**	
Expenses not deductible for tax	**37,956**		**2,093**		**40,049**	
Tax losses not recognised	**–**		**248**		**248**	
Tax charge at the Group's effective rate	**–**		**2,066**		**2,066**	

Group – 2005

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

11. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated loss attributable to equity holders of the parent for the year ended 31 December 2006 includes a loss of HK$195,401,000 (2005: HK$10,654,000) which has been dealt with in the financial statements of the Company *(note 26(b))*.

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent of HK$220,247,000 (2005: profit of HK$10,065,000) and the 3,842,606,368 (2005: weighted average number of 3,764,234,397) ordinary shares in issue during the year.

Diluted earnings/(loss) per share amounts for the years ended 31 December 2006 and 2005 have not been disclosed as the share options outstanding during these years had an anti-dilutive effect on the basic earnings/(loss) per share for these years.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
31 December 2006				
At 1 January 2006, net of accumulated depreciation	**213**	**2,277**	**1,597**	**4,087**
Additions	**–**	**1,834**	**335**	**2,169**
Disposals	**–**	**(149)**	**(25)**	**(174)**
Depreciation provided during the year	**(53)**	**(916)**	**(378)**	**(1,347)**
Exchange realignment	**8**	**92**	**48**	**148**
At 31 December 2006, net of accumulated depreciation	**168**	**3,138**	**1,577**	**4,883**
At 31 December 2006:				
Cost	**280**	**6,725**	**2,479**	**9,484**
Accumulated depreciation	**(112)**	**(3,587)**	**(902)**	**(4,601)**
Net carrying amount	**168**	**3,138**	**1,577**	**4,883**

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

Group

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

14. INTERESTS IN SUBSIDIARIES

	Company 2006 HK$'000	Company 2005 HK$'000
Unlisted shares, at cost	**318,860**	318,860
Impairment	**(206,517)**	(8,407)
	112,343	310,453
Due from subsidiaries	**24,254**	16,215
	136,597	326,668

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiaries.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company 2006	Percentage of equity attributable to the Company 2005	Principal activities
Asren Holdings Limited ("Asren")	British Virgin Islands/ Hong Kong	US$200	**51**	51	Investment holding
Astoria Innovations Limited* ("Astoria")	British Virgin Islands/ Hong Kong	US$1,000	**68**	68	Investment holding
Beijing Enterprises Sanxing Information Technology Co., Ltd.[Δ]	PRC	RMB6,532,000	**68**	68	Development and sale of computer software and provision of system integration and related services

14. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company 2006	2005	Principal activities
Beijing Enterprises VST Software Technology Co., Ltd.[Δ]	PRC	RMB20,000,000	**100**	100	Development and sale of computer software and provision of system integration and related services
Go Good Holdings Limited*	British Virgin Islands/ Hong Kong	US$100	**100**	100	Investment holding
Pantosoft International Limited	British Virgin Islands/ Hong Kong	US$100	**100**	100	Investment holding
Shanghai Pantosoft Company Limited[Δ]	PRC	HK$10,000,000	**100**	100	Development and sale of computer software and provision of system integration and related services
Snow Fair Company Limited* ("Snow Fair")	British Virgin Islands/ Hong Kong	US$100	**100**	100	Investment holding
Surfing Platform Software International Limited*	British Virgin Islands/ Hong Kong	US$1,080,668	**100**	100	Investment holding
Wisdom Elite Holdings Limited* ("Wisdom Elite")	British Virgin Islands/ Hong Kong	US$100	**100**	100	Investment holding

14. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company 2006	2005	Principal activities
Xteam Network (Beijing) Co., Ltd.@Δ	PRC	US$1,220,000	**51**	–	Development and sale of internet equipment and provision of related services
Xteam Software (China) Co., LimitedΔ	PRC	US$3,000,000	**100**	100	Sale of computer software and provision of related services
Xteam Software (Hong Kong) Limited	Hong Kong	HK$100	**100**	100	Office management

* Directly held by the Company

@ Set up during the year

Δ Registered as wholly-foreign-owned enterprises under the PRC law

15. GOODWILL

	Group 2006 HK$'000	2005 HK$'000
At 1 January:		
Cost and carrying amount	**289,465**	279,449
Cost, net of accumulated impairment:		
At 1 January	**289,465**	279,449
Acquisition of a subsidiary *(note 27)*	**–**	10,016
Impairment during the year	**(210,759)**	–
At 31 December	**78,706**	289,465
At 31 December:		
Cost	**289,465**	289,465
Accumulated impairment	**(210,759)**	–
Net carrying amount	**78,706**	289,465

15. GOODWILL *(Continued)*

Impairment testing of goodwill

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Snow Fair *(note (i))*	**–**	26,728
Astoria *(note (ii))*	**23,542**	23,542
Wisdom Elite *(note (ii))*	**45,148**	229,179
Asren *(note (iii))*	**10,016**	10,016
Carrying amount of goodwill	**78,706**	289,465

Notes:

(i) The recoverable amount of the cash-generating unit is determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 11% and the budgeted gross margins are based on the historical gross margins.

As Snow Fair had incurred an operating loss during the year and management expected the growth rate of the business to decline in line with the market, the directors therefore reassessed the recoverable amount of the goodwill and a full provision on impairment of the carrying amount of Snow Fair of HK$26,728,000 has been made and charged to the income statement for the year ended 31 December 2006.

(ii) The recoverable amounts of the cash-generating units of Wisdom Elite and Astoria are determined based on a value in use calculation. To calculate this, cash flow projections are based on financial budgets covering a ten-year period approved by senior management. Cash flows beyond the first five-year period are extrapolated using a steady declining growth rate. The discount rate used for value in use calculations is 11%. Management determined the budgeted gross margins based on past performances and the average growth rate used is comparable with the forecast of the information technology market in the PRC.

As there is a diminishing demand for major system integration projects, the revenue and profit generated by Wisdom Elite decreased only in this year. Management considered the growth rate of the business to decline in line with the market and as a result, the directors reassessed the recoverable amount of the goodwill of Wisdom Elite and an impairment loss of HK$184,031,000 was charged to the income statement for the year ended 31 December 2006.

(iii) The recoverable amount of the cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by the senior management. The discount rate applied to the cash flow projection is 11%. The Group is the pioneer of such technology in the market and the Group determined the sales volume based on the management's past experience in the information technology market and their expectations for the market development. Budgeted gross margins are determined by management based on past records and the expected growth rate of the market.

15. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

During the year ended 31 December 2006, impairment losses of HK$26,728,000 (2005: Nil) and HK$184,031,000 (2005: Nil) were charged to in the income statement for the goodwill attributable to Snow Fair and Wisdom Elite, respectively, as senior management of the Group believes that the recoverable amounts of the relevant cash-generating units are less than the carrying amounts with reference to the business valuation.

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

Budgeted turnover – Budgeted turnover is based on the expected growth rate of the market in which the assessed entity operates and the expected market share of the assessed entity.

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

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

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

Operating expenses – The bases used to determine the value assigned are staff head counts and price inflation. The value assigned to the key assumption reflects past experience and management's commitment to maintain its operating expenses to an acceptable level.

16. OTHER INTANGIBLE ASSETS

Group

	Deferred development costs HK$'000	Trademarks HK$'000	Computer software HK$'000	Total HK$'000
31 December 2006				
Cost at 1 January 2006, net of accumulated amortisation	**–**	**1,741**	**433**	**2,174**
Additions – internal development	**1,639**	**–**	**–**	**1,639**
Amortisation provided during the year	**(670)**	**(125)**	**(49)**	**(844)**
Exchange realignment	**(13)**	**68**	**16**	**71**
At 31 December 2006	**956**	**1,684**	**400**	**3,040**
At 31 December 2006:				
Cost	**1,639**	**2,548**	**500**	**4,687**
Accumulated amortisation	**(683)**	**(864)**	**(100)**	**(1,647)**
Net carrying amount	**956**	**1,684**	**400**	**3,040**
31 December 2005				
Cost at 1 January 2005, net of accumulated amortisation	–	1,802	38	1,840
Additions	–	–	481	481
Amortisation provided during the year	–	(120)	(86)	(206)
Exchange realignment	–	59	–	59
At 31 December 2005	–	1,741	433	2,174
At 31 December 2005:				
Cost	–	2,450	481	2,931
Accumulated amortisation	–	(709)	(48)	(757)
Net carrying amount	–	1,741	433	2,174

17. INVENTORIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**632**	–
Work-in-progress	**308**	–
Finished goods and merchandise	**2,786**	2,863
	3,726	2,863

18. TRADE RECEIVABLES

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 1 month	**23,646**	36,149
1 to 2 months	**350**	656
2 to 3 months	**124**	307
Over 3 months	**5,522**	11,728
	29,642	48,840

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

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

Included in the Group's trade receivables are amounts due from the Group's fellow subsidiaries of HK$2,384,000 (2005: HK$644,000), which are repayable on similar credit terms to those offered to the major customers of the Group.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments	**256**	256	**95**	126
Deposits and other receivables	**5,084**	5,775	**–**	–
Dividends receivable	**–**	–	**1,442**	1,249
Due from fellow subsidiaries	**3,012**	2,769	**–**	–
	8,352	8,800	**1,537**	1,375

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

20. TRADE PAYABLES

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 1 month	**1,661**	2,760
1 to 2 months	**264**	3
2 to 3 months	**3**	31
Over 3 months	**1,572**	945
	3,500	3,739

Included in the trade payables is an amount due to a fellow subsidiary of HK$150,000 (2005: Nil), which is repayable on similar credit terms to those offered by the fellow subsidiary to their customers.

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

21. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other payables	**6,237**	6,937	**–**	–
Accruals	**2,872**	3,186	**837**	1,204
	9,109	10,123	**837**	1,204

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

22. DUE TO HOLDING COMPANY/A SUBSIDIARY

The amount due to holding company is unsecured, bears interest at a rate of 5% per annum and has no fixed terms of repayment while the amount due to a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

23. DEFERRED TAX

The Group has tax losses arising in Hong Kong of HK$3,682,000 (2005: HK$3,682,000) that are available indefinitely, and in the PRC of HK$27,327,000 (2005: HK$19,060,000) that are available for a maximum of five years, for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is considered not probable that taxable profits will be available against which tax losses can be utilised.

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries.

24. SHARE CAPITAL

Shares

	2006 HK$'000	2005 HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.01 each	**100,000**	100,000
Issued and fully paid:		
3,842,606,368 ordinary shares of HK$0.01 each	**38,426**	38,426

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

	Number of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2005	3,758,471,752	37,585	322,354	359,939
Issue of shares for acquisition of a subsidiary	84,134,616	841	4,039	4,880
Share issue expenses	–	–	(10)	(10)
At 31 December 2005 and 2006	**3,842,606,368**	**38,426**	**326,383**	**364,809**

Share options

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

25. SHARE OPTION SCHEMES

(a) Pre-IPO Share Option Scheme

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

Details of the outstanding share options granted under the Pre-IPO Share Option Scheme as at 31 December 2006 are summarised as follows:

	Number of share options					
Name of participant	**At 1 January 2006**	**Forfeited during the year**	**At 31 December 2006**	**Date of grant of share options***	**Exercise period of share options**	**Exercise price of share options** *HK$ per share*
Former director						
Mr. Ma Gary Ming Fai	50,000,000	(50,000,000)	–	14 November 2001	11 June 2002 to 13 November 2011	0.266

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

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

At the balance sheet date, the Company does not have any share options outstanding under the Pre-IPO Share Option Scheme.

25. SHARE OPTION SCHEMES *(Continued)*

(b) Share option scheme

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

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

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

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

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

25. SHARE OPTION SCHEMES *(Continued)*

(b) Share option scheme *(Continued)*

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

Name or category of participant	Number of share options: At 1 January 2006	Forfeited during the year	At 31 December 2006	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share
Employees	13,500,000	(4,700,000)	**8,800,000**	19 December 2003	19 December 2003 to 18 December 2013	0.14
Advisers and consultants	33,000,000	–	**33,000,000**	19 December 2003	19 December 2003 to 18 December 2013	0.14
	46,500,000	(4,700,000)	**41,800,000**			

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

* The share options vested on the date of the grant.

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

No share options were exercised during the year.

At the balance sheet date, the Company had 41,800,000 share options outstanding under the Scheme, which represented approximately 1.1% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 41,800,000 additional ordinary shares of the Company and additional share capital of HK$418,000 and share premium of HK$5,434,000 (before issue expenses).

Subsequent to the balance sheet date, on 4 January 2007, a total of 22,200,000 share options were granted to a director of certain subsidiaries of the Company. These share options vested on 4 January 2007 and have an exercise price of HK$0.044 per share and an exercise period from 4 January 2007 to 3 January 2017. The closing price of the Company's shares at the date of grant was HK$0.042 per share.

In addition, on 5 March 2007, an employee has exercised 300,000 share options at an exercise price of HK$0.14 per share. The closing price of the Company's shares immediately before the date on which share options were exercised was HK$0.172.

At the date of approval of these financial statements, the Company had 63,700,000 share options outstanding under the Scheme, which represented approximately 1.66% of the Company's shares in issue as at that date.

26. 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 26 of the financial statements.

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

(b) Company

	Share premium account	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2005	322,354	(39,488)	282,866
Issue of shares	4,039	–	4,039
Share issue expenses	(10)	–	(10)
Loss for the year	–	(10,654)	(10,654)
At 31 December 2005 and 1 January 2006	326,383	(50,142)	276,241
Loss for the year	–	(195,401)	(195,401)
At 31 December 2006	**326,383**	**(245,543)**	**80,840**

27. BUSINESS COMBINATION

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

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

	Fair value recognised on acquisition and carrying amount 2005 *HK$'000*
Prepayments, deposits and other receivables	9,615
Other payables and accruals	(18)
Minority interests	(4,703)
	4,894
Goodwill on acquisition *(note 15)*	10,016
	14,910
Satisfied by:	
Promissory note	9,615
Cash associated with the acquisition	415
Issue of shares	4,880
	14,910

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the subsidiary is as follows:

	2005 *HK$'000*
Cash paid	(415)

28. OPERATING LEASE ARRANGEMENTS

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

At 31 December 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**1,864**	2,724
In the second to fifth years, inclusive	**620**	1,047
	2,484	3,771

29. RELATED PARTY TRANSACTIONS

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

		2006	2005
	Notes	***HK$'000***	*HK$'000*
Sales to a fellow subsidiary	*(i)*	**–**	234
Technical service fee payable to a fellow subsidiary	*(ii)*	**539**	1,132
Interest payable to holding company	*(iii)*	**558**	313
Service fee income receivable from a fellow subsidiary	*(iv)*	**1,680**	292

Notes:

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

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

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

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

29. RELATED PARTY TRANSACTIONS *(Continued)*

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

	2006	2005
	HK$'000	*HK$'000*
Short term employee benefits	**3,268**	2,385
Post-employment benefits	**98**	106
Total compensation paid to key management personnel	**3,366**	2,491

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

The related party transactions in respects of items (a)(iv) and (a)(ii) above in this year and the prior year, respectively, also constitute continuing connected transaction as defined in Chapter 20 of the Listing Rules.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Foreign currency risk

Most of the Group's payables and borrowings are denominated in Hong Kong dollars and RMB which are the local currencies, while the sales and purchases made by each subsidiary are conducted in the local currencies. Therefore, the Group's transactional currency exposure is minimal.

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

Credit risk

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

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

Liquidity risk

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

31. POST BALANCE SHEET EVENTS

(a) Pursuant to the Placing and Subscription Agreement dated 8 February 2007, China Merchants Securities (HK) Co., Ltd ("China Merchants") agreed to procure the placing of up to a total amount of 300,000,000 ordinary shares of HK$0.01 each of the Company to placees at an issue price of HK$0.098 per share. The closing price of the Company's share as at that date was HK$0.12 per share and the shares were fully placed out by China Merchant. The amount of net proceeds raised from the share placing was approximately HK$28.06 million and the net subscription price was approximately HK$0.094 per share. The Company intended to apply such proceeds as the general working capital of the Group. The shares are issued under the general mandate to allot, issue and deal with the shares granted to the Company's directors by the shareholders by a resolution passed at the annual general meeting held on 26 April 2006. The share placing was completed on 12 February 2007.

(b) On 4 January 2007, 22,200,000 share options were granted to a director of certain subsidiaries of the Company, as further detailed in note 25 to the financial statements.

(c) On 5 March 2007, 300,000 share options were exercised by an employee at an exercise price of HK$0.14 per share, as further detailed in note 25 to the financial statements.

32. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2007.

31 December 2006

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

RESULTS	**1 January 2006 to 31 December 2006 HK$'000**	1 January 2005 to 31 December 2005 HK$'000	1 April 2004 to 31 December 2004 HK$'000	1 April 2003 to 31 March 2004 HK$'000	1 April 2002 to 31 March 2003 HK$'000
REVENUE	**42,075**	66,891	51,739	26,823	26,694
PROFIT/(LOSS) BEFORE TAX	**(220,297)**	15,946	12,391	(31,980)	(10,327)
Tax	**(2,066)**	(444)	97	(318)	(117)
PROFIT/(LOSS) FOR THE YEAR/PERIOD	**(222,363)**	15,502	12,488	(32,298)	(10,444)
Attributable to:					
Equity holders of the parent	**(220,247)**	10,065	11,297	(33,722)	(10,589)
Minority interests	**(2,116)**	5,437	1,191	1,424	145
	(222,363)	15,502	12,488	(32,298)	(10,444)
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	**168,004**	387,178	353,787	40,294	67,448
TOTAL LIABILITIES	**(27,611)**	(26,288)	(18,953)	(9,244)	(17,567)
MINORITY INTERESTS	**(10,366)**	(12,969)	(3,233)	(2,801)	(1,377)
	130,027	347,921	331,601	28,249	48,504