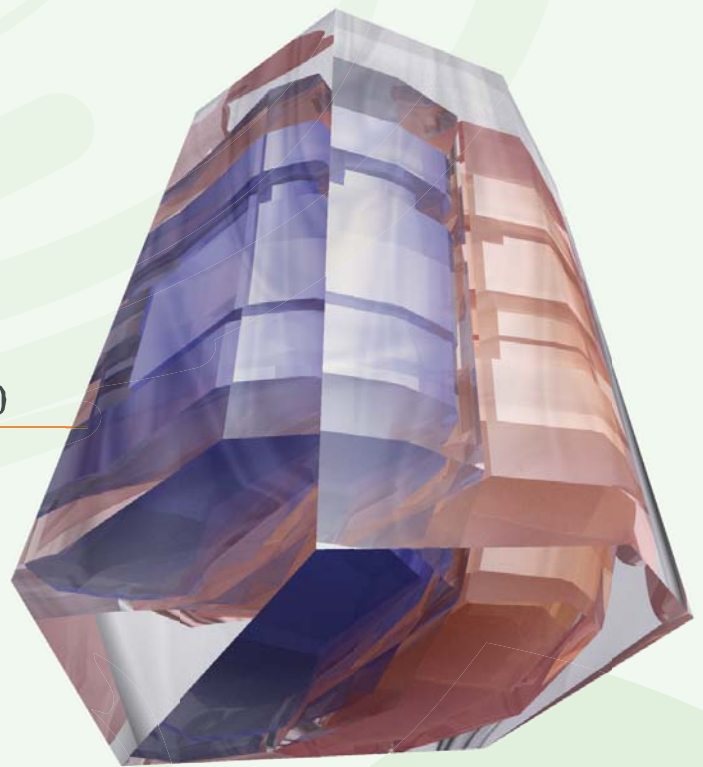




**TIMELESS** SOFTWARE LTD



**Agile Consolidation**

Wide Compatibility

**Sturdy Technology**

Platform Products

Platform Solutions

**Originals**

GuangCunYuan GuangCunYuan

ZiWangYuan ZiWangYuan

ZiFaYuan ZiFaYuan

SouSuoYuan SouSuoYuan

ShiXiangYuan  
ShiXiangYuan

**Annual Report 2007**




# Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “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 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.



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## Corporate Information

### Directors

*Executive directors*

CHENG Kin Kwan  
LAW Kwai Lam  
CHUNG Yiu Fai  
LEUNG Mei Sheung Eliza  
Zheng Ying Yu  
FUNG Chun Pong Louis  
LIAO Yun

*Independent non-executive directors*

Ng Kwok Tung  
TSANG Wai Chun Marianna  
CHAN Mei Ying Spencer

### Secretary

LAW Kwai Lam

### Qualified accountant

LEUNG Wai Sze CPA, FCCA

### Compliance officer

LAW Kwai Lam

### Audit committee

Ng Kwok Tung  
TSANG Wai Chun Marianna  
CHAN Mei Ying Spencer

### Registered Office

Units 111-113 1st Floor  
Building 9 Phase One  
Hong Kong Science Park  
Tai Po New Territories  
Hong Kong

### Auditors

Deloitte Touche Tohmatsu

### Legal adviser

Deacons

### Banker

Hang Seng Bank Limited

### Share Registrars

Computershare Hong Kong  
Investor Services Limited  
46th Floor, Hopewell Centre  
183 Queen's Road East  
Hong Kong

### REVIEW

As Hong Kong marks her tenth anniversary of returning sovereignty to China, the Group celebrates its eleventh anniversary in 2007. For all those years, the year just past is set to be counted as the most significant of the Group's development, because it was in last year the Group put the finishing touches on the "Timeless Consolidated Platform", which has evolved and been looked upon as a brand: a brand of Chinese innovative originality; and a brand representing the Group's firm belief on software development being the core competence, and the Group's eleven years of strenuous efforts through three hundred plus projects. The full construction of the Platform in last year has effectively put an end to this, and any future, lengthy development process(es). Concurrently, as a result of the consolidation, the Group's cash flow has improved; and the financial figures are stable and safe. Putting these factors together, the Group believes that a robust foundation has been built and the Group is well-equipped for the challenges ahead.

Timeless Consolidated Platform is composed of five individual yet inter-linkable sub-platforms; they are: Guangcun (廣存)、Sousuo (搜索)、Shixiang (視像)、Ziwang (子網)、Zifa (子發). These five sub-platforms can be gradually consolidated and upgraded as required. Thus, in reality, Timeless Consolidated Platform is a web-based service platform operating system that manages various mono-platforms.

Such a platform operating system, founded by the first GEM Board listed company Timeless of Hong Kong Special Administrative Region is absolutely nothing out of co-incidence. In unison with the Chinese political theme of "Building a Harmonious Society" Timeless Consolidated Platform is a technological harmonious platform; rather than participating in a "live or die" competition, it is trying its best to form and foster a multi-win alliance. Only by the completion of the Consolidated Platform, Timeless can then be empowered.

The business positioning and profit model of Timeless network platform operating system rest upon Timeless World of Services (TWOS), it embraces all services sub-platforms on the world web.

For the current fiscal year, we launched ten service sub-platforms on-trial as beta; these ten sub-platforms are: Tourism Development Services Sub-platform, Education Services Sub-platform, Multi-media Entertainment Sub-platform, Elderly Care Services Sub-platform, Medical Care Services Sub-platform, Workflow Services Sub-platform, Value-Add Services Sub-platform, Aero-Space Technology Sub-platform, Cross Network Information Sub-platform, Search Management Sub-platform.

In the past the results of our market probing and development efforts in parallel proved to be encouraging. It seems our ten plus years of enduring are pointing towards the right direction. The lengthy time and heavy amount we devoted will guarantee a possibly stunning return for sure.

### OUTLOOK

From now on, our effort will concentrate on transforming these above-mentioned beta application into marketing these application sub-platform in full steam. We firmly believe, the result between marketing with a finished sub-platform and probing and development in parallel are two different stories. Every inch forward of these sub-platforms will provide Timeless with benefit and profit enlargement prospect.

Our present judgment: in front of Timeless who survives through all the sufferings, there lay the vast profit generating prospect. Our present statement: "prudently forge ahead" is our market strategy. Our prudence is based on tight cash control whereas forging ahead will be to speedily convert every opportunity into material benefit. Our mission remains: maximize return for our shareholders by the fastest means.

On behalf of the Board

**Cheng Kin Kwan**

*Chairman & Chief Executive Officer*

Hong Kong, 18 June 2007

### RESULTS FOR THE YEAR ENDED 31 MARCH 2007

The directors continued to take a conservative approach for accounting purposes and a stringent view on recognising revenue was still being adopted especially for contracts of relatively longer term in nature in Mainland China. For the year ended 31 March 2007, the loss attributable to equity holders of the Company was approximately HK\$14.7 million (a profit of approximately HK\$2.4 million for the year ended 31 March 2006). The Group recorded audited turnover of approximately HK\$2.7 million, representing a decrease of 25% as compared to approximately HK\$3.6 million in last year.

The other income mainly comprised interest income from equity-linked notes of approximately HK\$5.4 million and bank interest income of approximately HK\$3.1 million.

The increase by 18% in staff costs to approximately HK\$15.2 million as compared with that in last year was mainly due to the recognition of share-based payments of approximately HK\$3.8 million to expense the fair value of share options granted during the year to directors and employees of the Group. In comparison, an amount of approximately HK\$1.8 million was recognised in last year.

The other expenses were decreased by 33% to approximately HK\$9.5 million as compared with that in last year. It was mainly due to significant decrease in the impairment for amounts due from customers for contract work from approximately HK\$4.2 million in last year to approximately HK\$0.3 million this year.

The gain on disposal of available-for-sale financial assets was approximately HK\$1.4 million, an increase of 600% as compared to approximately HK\$0.2 million in last year.

### LIQUIDITY AND FINANCIAL RESOURCES

The Group financed its operations and investing activities primarily with internally generated cash flow.

As at 31 March 2007, the Group had bank balances and cash (excluding pledged bank deposits) of approximately HK\$56.8 million (2006: HK\$132.5 million). The significant decrease in bank balances as compared with that of last year were mainly due to purchase of equity-linked notes amounting to approximately HK\$53.0 million, purchase of available-for-sale financial assets amounting to approximately HK\$4.9 million, purchase of office premises and investment properties located in Beijing at a cash consideration of approximately HK\$4.0 million, and acquisition of additional interests in a subsidiary at a cash consideration of approximately HK\$2.2 million.

As at 31 March 2007, the Group had total outstanding borrowings of approximately HK\$1.3 million (2006: HK\$1.5 million). The borrowings comprised a bank loan of approximately HK\$1.2 million (2006: HK\$1.4 million), which is repayable by monthly installment and will be fully repaid on 15 March 2015, and obligations under finance lease of approximately HK\$0.1 million (2006: HK\$0.1 million), which will be fully repaid on 31 March 2008.

### GEARING RATIO

As at 31 March 2007, the Group's gearing ratio was approximately 0.95% (2006: 1.03%), based on total borrowings of approximately HK\$1.3 million (2006: HK\$1.5 million) and equity attributable to equity holders of the Company of approximately HK\$136.3 million (2006: HK\$146.1 million).

### **CHARGE ON THE GROUP'S ASSETS**

As at 31 March 2007, a commercial property with net book value of approximately HK\$2.2 million (2006: HK\$2.3 million) situated in Guangzhou held by a PRC subsidiary was pledged to a bank to secure the loan of approximately HK\$1.2 million (2006: HK\$1.4 million).

Bank deposits totaling of approximately HK\$10.5 million (2006: HK\$10.3 million) were pledged to banks to secure the banking facilities. In which, credit facilities of HK\$5 million (2006: HK\$5 million) were available to its subsidiaries and loan facility of approximately HK\$4.9 million (2006: approximately HK\$4.8 million) were available to a jointly controlled entity.

### **CAPITAL STRUCTURE**

As at 31 March 2007, the Company's total number of issued shares was 1,053,851,503 (2006: 1,031,481,503). During the year, certain directors and employees of the Group exercised share options granted to them under the 2003 share option scheme and 22,370,000 shares of the Company were issued and allotted thereof.

### **SEGMENTAL INFORMATION**

In respect of business segments, the Group continues to focus on the segment of software development providing total solutions and customized development in respect of web technologies and related services, back-end and supporting technologies, software localization, China informatisation and social industry management projects, as well as business applications and system maintenance.

In respect of geographical segments, turnover generated from Hong Kong and Mainland China accounted for 60.5% and 39.5% respectively during the year.

### **ORDER BOOK AND PROSPECTS FOR NEW BUSINESS**

The amount of orders on hand of the Group was over HK\$2.3 million as at 31 March 2007.

### **MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES**

During the year under review, Talent Valley Company Limited ("Talent Valley"), a subsidiary of the Group, repurchased its share capital in nominal value of RMB4 million from a minority shareholder at a cash consideration of RMB2.2 million. As a result of the share repurchase, the registered capital of Talent Valley was reduced from RMB20 million to RMB16 million, effectively increasing the Group's interests in Talent Valley from 70% to 87.5%.

Save as disclosed above, there was no material disposal or acquisition of subsidiaries and affiliated companies for the year under review.

### **FUTURE PLANS FOR MATERIAL INVESTMENTS**

The Group does not have any plan for material investments in the near future.

### EXPOSURE TO EXCHANGE RISKS

Since the Group's borrowings and its source of income are primarily denominated in Hong Kong dollars or Renminbi and the exchange rate of Renminbi to Hong Kong dollars has been relatively stable throughout the year under review, the exposure to foreign exchange rate fluctuations is minimal.

### CONTINGENT LIABILITIES

#### Guarantee given

As at 31 March 2007, the Group has given guarantee of RMB4.9 million (2006: approximately RMB5 million) to a bank to secure the credit facilities granted to a jointly controlled entity. At 31 March 2007, the amount of facilities utilized was RMB4.9 million (2006: approximately RMB5 million).

As at 31 March 2007, the Company has given corporate guarantees of HK\$5 million (2006: HK\$5 million) to certain banks to secure the credit facilities granted to its subsidiaries. No subsidiaries has utilized the credit facilities as at 31 March 2007.

#### Pending litigation

During the year ended 31 March 2007, the Company initiated legal proceedings against a third party (the "Landlord") in respect of an alleged breach of the tenancy agreement in failing to refund the deposit of HK\$1,790,000. Concurrently, the Landlord resisted the claim and counterclaimed against the Company on, including but not limited to, reinstatement work and rental losses. The Company was in the process of gathering further details of the Landlord's claim. The Company did not see any grounds for withholding the deposit and, accordingly, the directors of the Company took the view that no contingency arises for which a provision is required to be made nor no allowance is required to be made to the deposit included in the financial statements as at 31 March 2007.

### EMPLOYEE INFORMATION

As at 31 March 2007, the Group employed a total staff of 44. Staff remuneration is reviewed by the Group from time to time and increases are granted normally annually or by special adjustment depending on length of service and performance when warranted. In addition to salaries, the Group provides staff benefits including medical insurance and provident fund. Share options and bonuses are also available to employees of the Group at the discretion of the directors and depending upon the financial performance of the Group.



## Biographical Details of Directors and Senior Management

### DIRECTORS

#### *Executive directors*

**Mr. Cheng Kin Kwan**, aged 68, is the founder and Chairman and Chief Executive Officer of the Company. Prior to establishing the Company, Mr. Cheng has been serving the IT industry for over 30 years. He was the inventor who developed the first Chinese processing system and brought into China the first generation of image processing PC, the first dealer of Novell system in Hong Kong and China, and also, the developer of the first computer system for Hong Kong Futures Exchange. He took up various senior positions in software development companies and provided services as technical consultant for multinational vendors.

**Mr. Chung Yiu Fai**, aged 43, joined the Group in February 1998. Mr. Chung became the Chief Information Officer since February 2001 and assists the CEO to strategize and execute the Group's business directions and IT strategies. He has over 15 years of IT experience and substantial experience in project management in Hong Kong and China. He obtained a Bachelor of Science degree in Computer Information Science from Ohio State University and gained the Engineering Honour Student Award.

**Mr. Law Kwai Lam**, aged 60, is the Corporate Affairs Director and the Company Secretary of the Company. Mr. Law has been with the Group since its establishment, and has since been responsible for the Company's and the Group's administrative, legal and secretarial matters. Mr. Law holds a Bachelor degree in Biochemistry from the University of Kansas. Prior to joining the Group, Mr. Law was the Company Secretary of a listed company in Hong Kong for 10 years.

**Ms. Leung Mei Sheung, Eliza**, aged 42, is the Administration Director of the Group and is responsible for the overall administrative management of the Group and special assignments by the CEO. Ms. Leung joined the Group in June 1996. She has over 21 years of experience in office administration and accounting in the IT field.

**Ms. Zheng Ying Yu**, aged 33, is the Chief Representative of the Group's Guangzhou subsidiary, responsible for market promotion, business development and the overall operation of the Guangzhou office. She joined the Group in 1998 and has eleven years experience in the IT industry. Ms Zheng holds a Bachelor of Science degree in Computer Science from ZhongShan University.

**Mr. Fung Chun Pong, Louis**, aged 54, is the Head of Operations, Hong Kong and is responsible for the overall operations of the Hong Kong region. Mr. Fung joined the Group in October 1998. He has over 29 years of experience in the IT industry and specialises in financial systems.

**Mr. Liao Yun**, aged 34, is the Head of Development-Guangzhou, responsible for planning and executing project development and Timeless Consolidated Platform development. Mr. Liao holds a Bachelor's Degree in Computer Software from South China University of Technology. He joined the Group in July 1998 and has over 11 years experience in the IT industry.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Ng Kwok Tung**, aged 56, was appointed as an independent non-executive director in 2003. Mr. Ng is a practising accountant. He holds a Bachelor of Commerce Degree and a Licentiate in Accountancy from McGill University, Canada and a Diploma in Chinese Law from the University of East Asia, Macau. Mr. Ng is a member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants of British Columbia, the Order of Chartered Accountants of Quebec, the Canadian Institute of Chartered Accountants and the Taxation Institute of Hong Kong.

**Ms. Tsang Wai Chun, Marianna**, aged 52, is the director of Chan & Wat, Certified Public Accountants. She is a member of the Institute of Chartered Secretaries and Administrators, the Hong Kong Institute of Company Secretaries and the Association of Professionals in Business Management. Ms. Tsang has over 20 years of company secretarial, corporate affairs, and related legal working experience in major commercial corporations and in professional firms. She has an MBA and a postgraduate certificate in Advanced Taxation. She was appointed as an independent non-executive director in October 2003.

**Mr. Chan Mei Ying, Spencer**, aged 51, is a director of Ubique Solutions Ltd. Mr. Chan has all round experience in corporate finance, business development, sales and marketing. Mr. Chan studied Computer Science in Melbourne, Australia, before receiving a Master's Degree in Business Administration from the Chinese University of Hong Kong. He also has attended an executive management program at INSEAD, Fontainebleau, France.

### SENIOR MANAGEMENT

**Mr. Kan Siu Kei, Laurie**, aged 46, is the Deputy Chief Executive Officer of the Group. He is a veteran in the Asian IT industry. Mr. Kan has held senior positions at PointCast Asia, China Internet Corporation (now Chinadotcom), Microsoft (Hong Kong) Limited and Compaq. He graduated in Business Management from Hong Kong Baptist College and from Stanford University's Executive Program.

## INTRODUCTION

The Company strives to attain and maintain the highest standard of corporate governance as it believes that effective corporate governance practices are fundamental to enhancing shareholder value and safeguarding shareholder interests.

The principles of corporate governance adopted by the Group emphasize a quality board, sound internal control, and transparency and accountability to all shareholders.

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules. Unless otherwise disclosed herein, the Company has complied with the Code throughout the year ended 31 March 2007.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding the securities transactions by directors on terms no less exacting than the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, all directors confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the year ended 31 March 2007.

## THE BOARD

The Board is responsible for directing the strategic objectives of the Company and overseeing the management of the business. The directors are charged with the task of promoting the success of the Company and making decisions in the best interest of the Company.

The Board led by the Chairman, Mr. Cheng Kin Kwan, approves and monitors group wide strategies and policies, annual budgets and business plans, evaluates the performance of the Company, and supervises the management. Management is responsible for the day-to-day operations of the Group under the leadership of the Chairman.

As at 31 March 2007, the Board comprised ten directors, including the Chairman, six executive directors and three independent non-executive directors. Biographical details of the directors are set out in the "Biographical Details of Directors and Senior Management" section on pages 7 to 8.

The Board held 6 meetings during the year ended 31 March 2007 with an average attendance rate of approximately 93%.

### Attendance

#### Executive directors

Cheng Kin Kwan ( <i>Chairman</i> )	6/6
Law Kwai Lam	6/6
Chung Yiu Fai	6/6
Leung Mei Sheung Eliza	6/6
Zheng Ying Yu	4/6
Fung Chun Pong Louis	6/6
Liao Yun	4/6

#### Independent non-executive directors

Ng Kwok Tung	6/6
Tsang Wai Chun Marianna	6/6
Chan Mei Ying Spencer	6/6

The Company confirmed that annual confirmations of independence were received from each of the Company's independent non-executive directors pursuant to rule 5.09 of the GEM Listing Rules and all independent non-executive directors are considered to be independent.

The Company's Articles of Association have been amended to provide that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the executive directors has entered into service contract with the Company when they are appointed as directors of the Company. These service contracts will continue thereafter until terminated by either party giving to the other party not less than three months' notice in writing.

Save as disclosed above, none of the directors proposed for re-election at the forthcoming annual general meeting has any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than the statutory compensation.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company does not have a separate chairman and chief executive officer and Mr. Cheng Kin Kwan currently holds both positions.

Given the Group's current stage of development, the Board considers that vesting the roles of chairman and chief executive officer in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operation. The Board shall nevertheless review the structure from time to time and shall consider the appropriate move to take should suitable circumstance arise.

## NON-EXECUTIVE DIRECTORS

Each of the independent non-executive directors was appointed for a term of one year.

## REMUNERATION OF DIRECTORS

A remuneration committee was set up in March 2006. The primary aim of the Remuneration Committee is to formulate transparent procedures for developing remuneration policies and compensation packages for the employees of the Group. The Remuneration Committee comprises four members, the majority of whom are independent non-executive directors. They are:

Mr. Cheng Kin Kwan (*Chairman of the Remuneration Committee*),  
Mr. Ng Kwok Tung,  
Ms. Tsang Wai Chun Marianna and  
Mr. Chan Mei Ying Spencer.

The Remuneration Committee has reviewed the performance of some of the directors for the year based on their performances. The emoluments of each of the directors are set out in this annual report on page 44.

## NOMINATION OF DIRECTORS

The Company has established a nomination committee (the "Nomination Committee") in March 2006 in compliance with the GEM Listing Rules, terms of reference of which have been adopted by the Company are consistent with the requirements of the Code. The Nomination Committee currently comprises three independent non-executive directors and one executive director, namely, Mr. Ng Kwok Tung, Ms. Tsang Wai Chun Marianna, Mr. Chan Mei Ying Spencer and Mr. Fung Chun Pong Louis.

The Nomination Committee meets at least once a year or as needed where vacancies arise at the Board.

## AUDITORS' REMUNERATION

For the year ended 31 March 2007, the fee payable to the auditors in respect of the audit, non-audit and tax and consultancy services were as follows:

<b>Types of services</b>	<b>Amount (HK\$)</b>
Audit services	759,000
Tax and consultancy services	314,000

## **AUDIT COMMITTEE**

The Audit Committee comprises three independent non-executive directors, Mr. Ng Kwok Tung, Ms. Tsang Wai Chun Marianna and Mr. Chan Mei Ying Spencer. During the year ended 31 March 2007, the Audit Committee held 4 meetings with 100% attendance.

<b>Name of members</b>	<b>Attendance</b>
Tsang Wai Chun Marianna ( <i>Chairman</i> )	4/4
Ng Kwok Tung	4/4
Chan Mei Ying Spencer	4/4

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee has reviewed the annual report for the year ended 31 March 2007 in conjunction with the Company's external auditors.

Under the terms of reference of the Audit Committee, the committee is required, amongst other things, to oversee the relationship with the external auditors, review the Group's preliminary results, interim results and annual financial statements, monitor compliance with statutory and GEM Listing Rules requirements, review the scope, extent and effectiveness of the activities of the Group's internal control, engage independent legal or other advisers as it determines is necessary and perform investigations.

## **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The following statements, which set out the responsibilities of the directors in relation to the financial statements, should be read in conjunction with, but distinguished from, the Independent Auditors' Report on pages 22 to 23 which acknowledges the reporting responsibilities of the Group's auditors.

The directors acknowledge that they are responsible for the preparation of financial statements which give a true and fair view. In preparing the financial statements which give a true and fair view, the directors consider that the Group uses appropriate accounting policies that are consistently applied, makes judgments and estimates that are reasonable and prudent, and that all applicable accounting standards are followed. The directors are responsible for ensuring that the Group keeps accounting records which disclose the financial position of the Group and enable the preparation of financial statements in accordance with Hong Kong Companies Ordinance and the applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. Having made appropriate enquiries, the directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

## **REVIEW OF RISK MANAGEMENT AND INTERNAL CONTROL**

The Audit Committee assists the Board in meeting its responsibilities for maintaining an effective system of internal control. It reviews the process by which the Group evaluates its control environment and risk assessment process, and the way in which business and control risks are managed.

The Board recognises its responsibility for maintaining an adequate system of internal control and prompt and transparent reporting of the Company's activities to the shareholders and to the public.

The internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorised use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. It aims to achieve reasonable assurance against material mis-statement or loss in the management of the Group's business activities.

## Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 March 2007.

### PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and is engaged in the provision of computer consultancy and software maintenance services, software development and sales of computer hardware and software.

The principal activities of the Company's principal subsidiaries are set out in note 33 to the financial statements.

### RESULTS

The results of the Group for the year are set out in the consolidated income statement on page 24.

### SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 26 to the financial statements.

### RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out on page 27 and note 28 to the financial statements respectively.

### PROPERTY, PLANT AND EQUIPMENT

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

### PRINCIPAL ASSOCIATE AND PRINCIPAL JOINTLY CONTROLLED ENTITY

The principal activities of the Group's principal associate and principal jointly controlled entity are set out in notes 15 and 16 to the financial statements, respectively.

### DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

*Executive directors:*

Cheng Kin Kwan (*Chairman and Chief Executive Officer*)

Law Kwai Lam

Chung Yiu Fai

Leung Mei Sheung, Eliza

Zheng Ying Yu

Fung Chun Pong, Louis

Liao Yun



**DIRECTORS AND DIRECTORS' SERVICE CONTRACTS** (continued)

*Independent non-executive directors:*

Ng Kwok Tung  
Tsang Wai Chun, Marianna  
Chan Mei Ying, Spencer

In accordance with Article 105(A) of the Company's Articles of Association, Madam Leung Mei Sheung, Eliza, Madam Zheng Ying Yu, Mr. Fung Chun Pong, Louis and Madam Tsang Wai Chun, Marianna retire and, being eligible, offer themselves for re-election.

Each of the executive directors has entered into a service contract with the Company when he or she is appointed as a director of the Company. These service contracts will continue thereafter until terminated by either party giving to the other party not less than three months' notice in writing.

Each of the independent non-executive directors was appointed for a term of one year.

Save as disclosed above, none of the directors proposed for re-election at the forthcoming annual general meeting has any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

**DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY**

At 31 March 2007, the interests and short positions of the directors and the chief executive of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM") of the Stock Exchange (the "GEM Listing Rules"), were as follows:

**Long positions**

**(a) Ordinary shares of HK\$0.05 each of the Company**

Name of director	Number of ordinary shares held in the capacity of			Total number of shares	Percentage of shareholding
	Beneficial owner	Controlled corporation			
Cheng Kin Kwan	215,378,000	—		215,378,000	20.44%
Law Kwai Lam	10,000,000	28,325,000*		38,325,000	3.64%
Chung Yiu Fai	6,614,000	—		6,614,000	0.63%
Leung Mei Sheung, Eliza	6,330,000	—		6,330,000	0.60%
Zheng Ying Yu	2,350,000	—		2,350,000	0.22%
Fung Chun Pong, Louis	2,488,000	—		2,488,000	0.24%
Liao Yun	2,010,000	—		2,010,000	0.19%
Ng Kwok Tung	1,000,000	—		1,000,000	0.09%

\* These shares were held by a private company which is wholly-owned by Mr. Law Kwai Lam.

**DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY** (continued)

**(b) Options to subscribe for ordinary shares of the Company**

Particulars of the directors' interests in share options to subscribe for shares in the Company pursuant to the Company's 2000 share option scheme and 2003 share option scheme were as follows:

Name of director	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options and number of underlying shares				
				Outstanding at 1.4.2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.3.2007
Cheng Kin Kwan	22.4.2002	22.4.2003 - 21.4.2006	0.4550	650,000	—	—	(650,000)	—
	5.9.2003	5.9.2003 - 4.9.2013	0.2280	6,960,000	—	—	—	6,960,000
	8.12.2003	8.12.2003 - 7.12.2013	0.2130	800,000	—	—	—	800,000
	25.2.2004	25.2.2004 - 24.2.2014	0.1900	7,700,000	—	—	—	7,700,000
	24.3.2006	24.3.2006 - 23.3.2016	0.1530	800,000	—	(800,000)	—	—
	26.9.2006	26.9.2006 - 25.9.2016	0.0772	—	9,500,000	(9,500,000)	—	—
Law Kwai Lam	5.9.2003	5.9.2003 - 4.9.2013	0.2280	2,000,000	—	—	—	2,000,000
	9.1.2004	9.1.2004 - 8.1.2014	0.1900	1,000,000	—	—	—	1,000,000
	28.2.2005	28.2.2005 - 27.2.2015	0.0722	1,000,000	—	—	—	1,000,000
	26.9.2006	26.9.2006 - 25.9.2016	0.0772	—	3,500,000	—	—	3,500,000
Chung Yiu Fai	22.4.2002	22.4.2003 - 21.4.2006	0.4550	300,000	—	—	(300,000)	—
	5.9.2003	5.9.2003 - 4.9.2013	0.2280	5,500,000	—	—	—	5,500,000
	8.12.2003	8.12.2003 - 7.12.2013	0.2130	400,000	—	—	—	400,000
	25.2.2004	25.2.2004 - 24.2.2014	0.1900	6,450,000	—	—	—	6,450,000
	16.9.2004	16.9.2004 - 15.9.2014	0.0870	2,300,000	—	—	—	2,300,000
	13.12.2004	13.12.2004 - 12.12.2014	0.0982	300,000	—	—	—	300,000
	28.2.2005	28.2.2005 - 27.2.2015	0.0722	5,000,000	—	(2,000,000)	—	3,000,000
	22.9.2005	22.9.2005 - 21.9.2015	0.0920	2,400,000	—	—	—	2,400,000
	24.3.2006	24.3.2006 - 23.3.2016	0.1530	300,000	—	—	—	300,000
	26.9.2006	26.9.2006 - 25.9.2016	0.0772	—	9,500,000	—	—	9,500,000
Leung Mei Sheung, Eliza	5.9.2003	5.9.2003 - 4.9.2013	0.2280	5,500,000	—	—	—	5,500,000
	8.12.2003	8.12.2003 - 7.12.2013	0.2130	4,300,000	—	—	—	4,300,000
	25.2.2004	25.2.2004 - 24.2.2014	0.1900	5,800,000	—	—	—	5,800,000
	13.12.2004	13.12.2004 - 12.12.2014	0.0982	3,430,000	—	—	—	3,430,000
	28.2.2005	28.2.2005 - 27.2.2015	0.0722	2,500,000	—	(1,000,000)	—	1,500,000
	22.9.2005	22.9.2005 - 21.9.2015	0.0920	400,000	—	—	—	400,000
	24.3.2006	24.3.2006 - 23.3.2016	0.1530	300,000	—	—	—	300,000
	26.9.2006	26.9.2006 - 25.9.2016	0.0772	—	9,500,000	—	—	9,500,000

**DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY** (continued)

**(b) Options to subscribe for ordinary shares of the Company** (continued)

Name of director	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options and number of underlying shares				
				Outstanding at 1.4.2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.3.2007
Zheng Ying Yu	22.4.2002	22.4.2003 - 21.4.2006	0.4550	300,000	—	—	(300,000)	—
	5.9.2003	5.9.2003 - 4.9.2013	0.2280	2,000,000	—	—	—	2,000,000
	8.12.2003	8.12.2003 - 7.12.2013	0.2130	400,000	—	—	—	400,000
	9.1.2004	9.1.2004 - 8.1.2014	0.1900	7,000,000	—	—	—	7,000,000
	13.12.2004	13.12.2004 - 12.12.2014	0.0982	500,000	—	—	—	500,000
	28.2.2005	28.2.2005 - 27.2.2015	0.0722	1,000,000	—	(350,000)	—	650,000
	22.9.2005	22.9.2005 - 21.9.2015	0.0920	400,000	—	—	—	400,000
	24.3.2006	24.3.2006 - 23.3.2016	0.1530	300,000	—	—	—	300,000
	26.9.2006	26.9.2006 - 25.9.2016	0.0772	—	2,000,000	(1,000,000)	—	1,000,000
Fung Chun Pong, Louis	5.9.2003	5.9.2003 - 4.9.2013	0.2280	2,000,000	—	—	—	2,000,000
	9.1.2004	9.1.2004 - 8.1.2014	0.1900	1,000,000	—	—	—	1,000,000
	19.4.2004	19.4.2004 - 18.4.2014	0.2096	300,000	—	—	—	300,000
	30.9.2004	30.9.2004 - 29.9.2014	0.0900	300,000	—	—	—	300,000
	13.12.2004	13.12.2004 - 12.12.2014	0.0982	300,000	—	—	—	300,000
	22.9.2005	22.9.2005 - 21.9.2015	0.0920	400,000	—	—	—	400,000
	24.3.2006	24.3.2006 - 23.3.2016	0.1530	300,000	—	—	—	300,000
	26.9.2006	26.9.2006 - 25.9.2016	0.0772	—	1,000,000	—	—	1,000,000
Liao Yun	22.4.2002	22.4.2003 - 21.4.2006	0.4550	200,000	—	—	(200,000)	—
	5.9.2003	5.9.2003 - 4.9.2013	0.2280	800,000	—	—	—	800,000
	26.11.2003	26.11.2003 - 25.11.2013	0.2300	400,000	—	—	—	400,000
	9.1.2004	9.1.2004 - 8.1.2014	0.1900	790,000	—	—	—	790,000
	19.4.2004	19.4.2004 - 18.4.2014	0.2096	300,000	—	—	—	300,000
	16.9.2004	16.9.2004 - 15.9.2014	0.0870	500,000	—	—	—	500,000
	30.9.2004	30.9.2004 - 29.9.2014	0.0900	500,000	—	—	—	500,000
	13.12.2004	13.12.2004 - 12.12.2014	0.0982	300,000	—	—	—	300,000
	28.2.2005	28.2.2005 - 27.2.2015	0.0722	2,000,000	—	(1,000,000)	—	1,000,000
	22.9.2005	22.9.2005 - 21.9.2015	0.0920	400,000	—	—	—	400,000
	24.3.2006	24.3.2006 - 23.3.2016	0.1530	300,000	—	—	—	300,000
	26.9.2006	26.9.2006 - 25.9.2016	0.0772	—	2,000,000	—	—	2,000,000

**DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY** (continued)

**(b) Options to subscribe for ordinary shares of the Company** (continued)

Name of director	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options and number of underlying shares				
				Outstanding at 1.4.2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.3.2007
Ng Kwok Tung	28.2.2005	28.2.2005 - 27.2.2015	0.0722	1,000,000	—	(1,000,000)	—	—
	24.3.2006	24.3.2006 - 23.3.2016	0.1530	500,000	—	—	—	500,000
	26.9.2006	26.9.2006 - 25.9.2016	0.0772	—	3,000,000	—	—	3,000,000
Tsang Wai Chun, Marianna	24.3.2006	24.3.2006 - 23.3.2016	0.1530	500,000	—	—	—	500,000
	26.9.2006	26.9.2006 - 25.9.2016	0.0772	—	3,000,000	—	—	3,000,000
Chan Mei Ying, Spencer	24.3.2006	24.3.2006 - 23.3.2016	0.1530	500,000	—	—	—	500,000
	26.9.2006	26.9.2006 - 25.9.2016	0.0772	—	3,000,000	—	—	3,000,000
				<u>91,580,000</u>	<u>46,000,000</u>	<u>(16,650,000)</u>	<u>(1,450,000)</u>	<u>119,480,000</u>

Save as disclosed above and other than nominee shares in certain wholly-owned subsidiaries held by certain directors in trust for the Group, at 31 March 2007, none of the directors or chief executive or any of their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations which fall to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

## **SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES**

As at 31 March 2007, according to the register maintained by the Company pursuant to Section 336 of the SFO, the following persons (not being a director or chief executive of the Company) were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital of the Company.

<b>Name of substantial shareholder</b>	<b>Number of ordinary shares held</b>	<b>Number of share options and underlying shares held</b>	<b>Aggregate long position</b>	<b>Percentage of the issued share capital as at 31 March 2007</b>
Educational Information Technology (HK) Company Limited *	108,057,374	—	108,057,374	10.25%
Crimson Asia Capital Limited, L.P.**	105,203,591	—	105,203,591	9.98%
Kan Siu Kei, Laurie**	41,978,000	17,000,000	58,978,000	5.60%

\* These shares were held in trust for 寧夏教育信息技術股份有限公司 (Ningxia Educational Information & Technology Co., Ltd.), a company in which the Group has 25% equity interest.

\*\* These shares were beneficially owned by the respective parties.

Save as disclosed in the section "Directors' and chief executive's interests and short positions in shares and underlying shares of the Company", at 31 March 2007, the Company had not been notified of any other interests or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under Part XV of the SFO.

## **SHARE OPTIONS**

Details of the Company's share option schemes are set out in note 27 to the financial statements.

## **DIRECTORS' INTERESTS IN CONTRACTS**

There were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

The Company has received written confirmation from each of its independent non-executive directors in respect of their independence during the year and all independent non-executive directors are still being considered to be independent.

## **MAJOR CUSTOMERS AND SUPPLIERS**

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 42% of the Group's total sales while the sales attributable to the Group's largest customer was approximately 14% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers comprised approximately 96% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 59% of the Group's total purchases.

Save as disclosed above, none of the directors, their associates or any shareholder, which to the knowledge of the directors owned more than 5% of the Company's issued share capital, had any interest in the share capital of any of the five largest customers or suppliers of the Group.

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

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

## **EMOLUMENT POLICY**

The emolument policy of the employees of the Group is set up on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the remuneration committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 27 to the financial statements.

## **CORPORATE GOVERNANCE**

Principal corporate governance policies adopted by the Company are set out in the Corporate Governance Report on pages 9 to 13.

## **COMPETING INTEREST**

As at 31 March 2007, none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competes or may compete with the business of the Group.

**AUDITOR**

A resolution will be submitted to the annual general meeting of the Company to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

**CHENG KIN KWAN**

*CHAIRMAN AND CHIEF EXECUTIVE OFFICER*

Hong Kong, 18 June 2007



**TO THE SHAREHOLDERS OF TIMELESS SOFTWARE LIMITED**

天時軟件有限公司

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Timeless Software Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 24 to 67, which comprise the consolidated and Company balance sheets as at 31 March 2007, 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 consolidated financial statements**

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated 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 consolidated financial statements.

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



## **Independent Auditor's Report** (Continued)

### **Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 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 Hong Kong Companies Ordinance.

### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong  
18 June 2007

## Consolidated Income Statement

For the Year Ended 31 March 2007

	NOTES	2007 HK\$'000	2006 HK\$'000
Turnover	5	<b>2,657</b>	3,638
Other income		<b>9,570</b>	4,246
Gain on disposal of land and buildings		—	37,945
Cost of computer software and hardware sold		—	(704)
Staff costs		<b>(15,209)</b>	(12,930)
Depreciation and amortisation		<b>(1,865)</b>	(8,519)
Other expenses		<b>(9,480)</b>	(14,121)
Fair value change on investment properties		<b>167</b>	—
Fair value change on equity-linked notes		<b>(1,701)</b>	—
Impairment in value of available-for-sale financial assets		—	(1,187)
Gain on disposal of available-for-sale financial assets		<b>1,406</b>	168
Allowance on advance made to a jointly controlled entity		<b>(1,226)</b>	—
Discount on acquisition arising from purchase of additional interests in a subsidiary		<b>745</b>	—
Finance costs	6	<b>(77)</b>	(756)
Share of losses of associates		<b>(520)</b>	(1,274)
Share of losses of jointly controlled entities		—	(4,362)
		<hr/>	<hr/>
(Loss) profit for the year	7	<b>(15,533)</b>	2,144
		<hr/>	<hr/>
Attributable to:			
Equity holders of the Company		<b>(14,724)</b>	2,355
Minority interests		<b>(809)</b>	(211)
		<hr/>	<hr/>
		<b>(15,533)</b>	2,144
		<hr/>	<hr/>
(Loss) earnings per share	11		
– Basic		<b>(1.415) cents</b>	0.230 cents
		<hr/>	<hr/>
– Diluted		<b>N/A</b>	0.229 cents
		<hr/>	<hr/>

## Consolidated Balance Sheet

At 31 March 2007

	NOTES	2007 HK\$'000	2006 HK\$'000
Non-current assets			
Investment properties	12	<b>2,100</b>	—
Property, plant and equipment	13	<b>6,632</b>	4,288
Interests in associates	15	<b>5,852</b>	6,775
Interests in jointly controlled entities	16	<b>—</b>	1,226
Equity-linked notes	17	<b>51,483</b>	—
		<b>66,067</b>	12,289
Current assets			
Amounts due from customers for contract work	18	<b>316</b>	613
Trade and other receivables	19	<b>7,974</b>	3,835
Available-for-sale financial assets	20	<b>4,290</b>	—
Pledged bank deposits	21	<b>10,500</b>	10,327
Bank balances and cash	21	<b>56,848</b>	132,461
		<b>79,928</b>	147,236
Current liabilities			
Accounts payables	22	<b>5,096</b>	5,205
Obligations under a finance lease due within one year	23	<b>51</b>	49
Current portion of secured long-term bank loan	25	<b>133</b>	122
		<b>5,280</b>	5,376
Net current assets		<b>74,648</b>	141,860
Total assets less current liabilities		<b>140,715</b>	154,149
Non-current liabilities			
Obligations under a finance lease due after one year	23	<b>—</b>	51
Secured long-term bank loan	25	<b>1,148</b>	1,232
		<b>1,148</b>	1,283
Net assets		<b>139,567</b>	152,866
Capital and reserves			
Share capital	26	<b>52,693</b>	51,574
Reserves		<b>83,626</b>	94,527
Equity attributable to equity holders of the Company		<b>136,319</b>	146,101
Minority interests		<b>3,248</b>	6,765
Total equity		<b>139,567</b>	152,866

The financial statements on pages 24 to 67 were approved and authorised for issue by the Board of Directors on 18 June 2007 and are signed on its behalf by:

**CHENG KIN KWAN**  
Chairman and  
Chief Executive Officer

**LAW KWAI LAM**  
Director

## Balance Sheet

At 31 March 2007

	NOTES	2007 HK\$'000	2006 HK\$'000
Non-current assets			
Property, plant and equipment	13	<b>1,478</b>	960
Investments in subsidiaries	14	<b>8,000</b>	8,000
Interests in associates	15	<b>5,852</b>	6,775
Interests in jointly controlled entities	16	—	1,226
Equity-linked notes	17	<b>51,483</b>	—
		<b>66,813</b>	16,961
Current assets			
Amounts due from customers for contract work	18	<b>205</b>	203
Trade and other receivables	19	<b>6,800</b>	3,445
Available-for-sale financial assets	20	<b>4,290</b>	—
Pledged bank deposits	21	<b>5,000</b>	5,000
Bank balances and cash	21	<b>53,297</b>	119,366
		<b>69,592</b>	128,014
Current liabilities			
Accounts payables	22	<b>2,166</b>	1,800
Obligations under a finance lease due within one year	23	<b>51</b>	49
Amounts due to subsidiaries	24	<b>35,955</b>	35,965
		<b>38,172</b>	37,814
Net current assets		<b>31,420</b>	90,200
Total assets less current liabilities		<b>98,233</b>	107,161
Non-current liabilities			
Obligations under a finance lease due after one year	23	—	51
Net assets		<b>98,233</b>	107,110
Capital and reserves			
Share capital	26	<b>52,693</b>	51,574
Reserves	28	<b>45,540</b>	55,536
Total equity		<b>98,233</b>	107,110

**CHENG KIN KWAN**

*Chairman and  
Chief Executive Officer*

**LAW KWAI LAM**

*Director*

## Consolidated Statement of Changes in Equity

For the Year Ended 31 March 2007

	Share capital	Share premium	Share options reserve	Investment revaluation reserve	Translation reserve	Deficit	Attributable to equity holders of the Company	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2005	50,474	630,625	—	—	—	(543,159)	137,940	6,787	144,727
Exchange differences arising from translation of consolidated financial statements of overseas operations recognised directly in equity	—	—	—	—	728	—	728	189	917
Exchange differences arising from translation of associates and jointly controlled entities	—	—	—	—	528	—	528	—	528
Share of post-acquisition reserve of associates	—	—	—	1,183	—	—	1,183	—	1,183
Net income recognised in equity	—	—	—	1,183	1,256	—	2,439	189	2,628
Profit (loss) for the year	—	—	—	—	—	2,355	2,355	(211)	2,144
Total recognised income and expenses for the year	—	—	—	1,183	1,256	2,355	4,794	(22)	4,772
Issue of shares	1,100	513	—	—	—	—	1,613	—	1,613
Expenses incurred in connection with the issue of shares	—	(16)	—	—	—	—	(16)	—	(16)
Recognition of equity settled share-based payments	—	—	1,770	—	—	—	1,770	—	1,770
	1,100	497	1,770	—	—	—	3,367	—	3,367
At 31 March 2006	51,574	631,122	1,770	1,183	1,256	(540,804)	146,101	6,765	152,866
Exchange differences arising from translation of consolidated financial statements of overseas operations recognised directly in equity	—	—	—	—	463	—	463	235	698
Exchange differences arising from translation of associates	—	—	—	—	271	—	271	—	271
Fair value change in available-for-sale financial assets	—	—	—	(578)	—	—	(578)	—	(578)
Share of post-acquisition reserve of associates	—	—	—	(752)	—	—	(752)	—	(752)
Net (expenses) income recognised in equity	—	—	—	(1,330)	734	—	(596)	235	(361)
Loss for the year	—	—	—	—	—	(14,724)	(14,724)	(809)	(15,533)
Total recognised income and expenses for the year	—	—	—	(1,330)	734	(14,724)	(15,320)	(574)	(15,894)
Issue of shares	1,119	656	—	—	—	—	1,775	—	1,775
Expenses incurred in connection with the issue of shares	—	(11)	—	—	—	—	(11)	—	(11)
Acquisition of additional interests in a subsidiary	—	—	—	—	—	—	—	(2,943)	(2,943)
Transfer of share option reserve on exercise of share options	—	751	(751)	—	—	—	—	—	—
Recognition of equity settled share-based payments	—	—	3,774	—	—	—	3,774	—	3,774
	1,119	1,396	3,023	—	—	—	5,538	(2,943)	2,595
At 31 March 2007	52,693	632,518	4,793	(147)	1,990	(555,528)	136,319	3,248	139,567

## Consolidated Cash Flow Statement

For the Year Ended 31 March 2007

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Operating activities		
(Loss) profit for the year	<b>(15,533)</b>	2,144
Adjustments for:		
Interest income	<b>(8,531)</b>	(1,787)
Interest expenses	<b>77</b>	756
Share of losses of associates	<b>520</b>	1,274
Share of losses of jointly controlled entities	<b>—</b>	4,362
Depreciation and amortisation	<b>1,865</b>	8,519
Gain on disposal of property, plant and equipment	<b>(10)</b>	(37,916)
Fair value change on investment properties	<b>(167)</b>	—
Fair value change on equity-linked notes	<b>1,701</b>	—
Impairment in value of available-for-sale financial assets	<b>—</b>	1,187
Gain on disposal of available-for-sale financial assets	<b>(1,406)</b>	(168)
Allowance on advance made to a jointly controlled entity	<b>1,226</b>	—
Discount on acquisition arising from purchase of additional interests in a subsidiary	<b>(745)</b>	—
Impairment for amounts due from customers for contract work	<b>348</b>	4,173
Allowance for other receivables	<b>—</b>	556
Share-based payments	<b>3,774</b>	1,770
Operating cash flows before movements in working capital	<b>(16,881)</b>	(15,130)
(Increase) decrease in amounts due from customers for contract work	<b>(35)</b>	124
(Increase) decrease in trade and other receivables	<b>(3,734)</b>	7,142
Decrease in accounts payables	<b>(217)</b>	(3,849)
Net cash used in operating activities	<b>(20,867)</b>	(11,713)
Investing activities		
Interest received	<b>8,494</b>	1,751
Purchase of investment properties	<b>(1,933)</b>	—
Purchase of property, plant and equipment	<b>(4,100)</b>	(221)
Proceeds from disposal of property, plant and equipment	<b>35</b>	159,144
Purchase of additional interests in a subsidiary	<b>(2,198)</b>	—
Purchase of an associate	<b>(431)</b>	—
Purchase of equity-linked notes	<b>(167,100)</b>	—
Proceeds from redemption of equity-linked notes	<b>113,916</b>	—
Purchase of available-for-sale financial assets	<b>(44,470)</b>	—
Proceeds from disposal of available-for-sale financial assets	<b>41,008</b>	215
Increase in pledged bank deposits	<b>—</b>	28
Net cash (used in) from investing activities	<b>(56,779)</b>	160,917

**Consolidated Cash Flow Statement** (Continued)  
For the Year Ended 31 March 2007

	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
Financing activities		
Interest paid	<b>(77)</b>	(756)
Proceeds from issue of shares	<b>1,775</b>	1,613
Expenses incurred in connection with the issue of shares	<b>(11)</b>	(16)
Repayment of obligations under a finance lease	<b>(49)</b>	(88)
Repayment of bank loans	<b>(127)</b>	(35,152)
	<hr/>	<hr/>
Net cash from (used in) financing activities	<b>1,511</b>	(34,399)
	<hr/>	<hr/>
(Decrease) increase in cash and cash equivalents	<b>(76,135)</b>	114,805
Cash and cash equivalents at 1 April	<b>132,461</b>	17,246
Effect of foreign exchange rate changes	<b>522</b>	410
	<hr/>	<hr/>
Cash and cash equivalents at 31 March	<b>56,848</b>	132,461
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<b>56,848</b>	132,461
	<hr/> <hr/>	<hr/> <hr/>

# Notes to the Financial Statements

For the Year Ended 31 March 2007

## 1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). It acts as an investment holding company and is engaged in the provision of computer consultancy and software maintenance services, software development and sales of computer hardware and software. The address of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), amendments of Hong Kong Accounting Standards ("HKAS"s) and Interpretations ("INT"s) (hereafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), that are effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented.

The Group has not early applied the following new Standards, Amendment or INTs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new Standards, Amendment or INTs will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HKFRS 8	Operating segments <sup>2</sup>
HK(IFRIC) - INT 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) - INT 9	Reassessment of embedded derivatives <sup>4</sup>
HK(IFRIC) - INT 10	Interim financial reporting and impairment <sup>5</sup>
HK(IFRIC) - INT 11	HKFRS 2 - Group and treasury share transactions <sup>6</sup>
HK(IFRIC) - INT 12	Service concession arrangements <sup>7</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2009.

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006.

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

<sup>5</sup> Effective for annual periods beginning on or after 1 November 2006.

<sup>6</sup> Effective for annual periods beginning on or after 1 March 2007.

<sup>7</sup> Effective for annual periods beginning on or after 1 January 2008.



### **3. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with HKFRSs and include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange and the Hong Kong Companies Ordinance.

In addition, the consolidated financial statements have been prepared on the historical cost basis, except for investment properties and financial instruments, which are measured at fair values, as detailed in the accounting policies set out below.

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

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

Acquisition of additional interests in subsidiaries is recorded at the Group's book value of the net assets attributable to the interests. The excess of the carrying amounts of net assets attributable to the interests over the cost of acquisition is recognised as discount on acquisition.

#### **Investments in associates**

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

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

### **3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

#### **Joint ventures**

##### *Jointly controlled entities*

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

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

#### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

When the outcome of a contract for software development can be estimated reliably, revenue from fixed price contracts is recognised on the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for each contract. When the outcome of a contract cannot be estimated reliably, revenue is recognised to the extent of contract costs incurred that it is probable that they are recoverable.

Sales of computer hardware and software are recognised when the goods are delivered and title has passed.

Revenue from software maintenance services is recognised when the services are provided.

Subscription income is recognised on a straight line basis over the period when the publication items are dispatched to subscribers.

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

### **3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

#### **Investment properties**

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

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

#### **Leases**

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

##### *The Group as lessor*

Rental income from operating leases is recognised in the income statement on a straight line basis over the term of the relevant lease.

##### *The Group as lessee*

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

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

### **3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

#### **Property, plant and equipment**

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

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

The cost of buildings is depreciated over the shorter of the relevant lease period or 20 years using the straight line method.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the straight line method, at the rate of 20% per annum.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the period of the relevant lease.

The land and buildings elements of a lease of land and buildings are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease.

#### **Software development contracts**

When the outcome of a contract for software development can be estimated reliably, contract costs are charged to the income statement with reference to the stage of completion of the contract activity at the balance sheet date as measured by reference to the proportion that costs incurred to date bear to estimated costs for each contract.

When the outcome of a contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Where it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

### **3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

#### **Financial instruments**

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

#### **Financial assets**

The Group's financial assets are classified into one of the three categories, financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a settlement date basis.

##### *Financial assets at fair value through profit or loss*

Equity-linked notes have been designated at fair value through profit or loss upon initial recognition. The equity-linked notes contained embedded derivatives which is not closely related to the host contract.

##### *Loans and receivables*

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

##### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods.

### **3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

#### **Financial instruments** (continued)

##### ***Financial liabilities and equity***

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

##### *Financial liabilities*

Financial liabilities comprising accounts payables, obligations under a finance lease and bank loans are subsequently measured at amortised cost, using the effective interest method.

##### *Equity instruments*

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

##### ***Derecognition***

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

##### ***Impairment loss***

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Share-based payment transactions**

***Equity-settled share-based payment transactions***

*Share options granted to employees of the Company*

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

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to deficit.

**Taxation**

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

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

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

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Foreign currencies**

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

Exchange differences arising on the settlement of monetary items, and on translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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



#### **4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's major financial instruments include equity-linked notes, available-for-sale financial assets, bank loan, trade and other receivables, accounts payables, pledged bank deposits and bank balances and cash. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies applied by the Group to mitigate these risks are set out below. Management monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

##### **Credit risk**

As at 31 March 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties which the Group has provided financial guarantees is arising from the amount of contingent liabilities disclosed in Note 31.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies and state-owned banks with good reputation.

##### **Market risk**

###### *(i) Price risk*

The Group is exposed to equity security price risk through its equity-linked notes and available-for-sale financial assets. Management manages this exposure by maintaining a portfolio of investments with different risk profiles.

###### *(ii) Fair value interest rate risk*

The Group's bank loan is carried at fixed-rate and exposed the Group to fair value interest rate risk (see note 25 for details of this borrowing). It is the Group's policy to keep its borrowings at fixed rate of interest so as to minimise the fair value interest rate risk. The management considered the risks insignificant to the Group.

###### *(iii) Cash flow interest rate risk*

Interest bearing financial assets are mainly bank balances carried at prevailing market rate, that exposed the Group to cash flow interest rate risk. The Group currently does not have any policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arises.

##### **Fair value**

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices.

The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The fair value of equity-linked notes are quoted by independent financial institution which was determined with reference to estimated cash flows with appropriate yield curve for equivalent instruments at balance sheet date.

The directors consider the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segments

For management purposes, the Group's operation is software development. This division is the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Software development	—	provision of software development services including provision of computer consultancy, software maintenance services and sales of computer hardware and software
Other operations	—	magazine publishing, provision of computer platform for educational purpose and operation of a software park

Turnover represents the aggregate of the net amounts received and receivable from third parties in connection with software development including provision of computer consultancy, software maintenance services and sales of computer hardware and software.

Business segments for the year are as follows:

	Turnover		Results	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Software development	<b>2,652</b>	3,633	<b>(14,863)</b>	(21,209)
Other operations (unallocated)	<b>5</b>	5	<b>(7)</b>	(173)
	<b>2,657</b>	<u>3,638</u>	<b>(14,870)</b>	<u>(21,382)</u>
Interest income from				
– bank			<b>3,095</b>	1,787
– equity-linked notes			<b>5,436</b>	—
Gain on disposal of land and buildings			<b>—</b>	37,945
Unallocated corporate expenses			<b>(7,988)</b>	(8,795)
Allowance on advance made to a jointly controlled entity			<b>(1,226)</b>	—
Discount on acquisition arising from purchase of additional interests in a subsidiary			<b>745</b>	—
Fair value change on equity-linked notes			<b>(1,701)</b>	—
Fair value change on investment properties			<b>167</b>	—
Finance costs			<b>(77)</b>	(756)
Gain on disposal of available-for-sale financial assets			<b>1,406</b>	168
Impairment in value of available-for-sale financial assets			<b>—</b>	(1,187)
Share of losses of associates				
– other operations (unallocated)			<b>(520)</b>	(1,274)
Share of losses of jointly controlled entities				
– other operations (unallocated)			<b>—</b>	(4,362)
(Loss) profit for the year			<b>(15,533)</b>	<u>2,144</u>

**5. BUSINESS AND GEOGRAPHICAL SEGMENTS** (continued)

**Business segments** (continued)

	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
<b>BALANCE SHEET</b>		
Assets		
Segment assets		
– software development	<b>14,922</b>	8,731
Interests in associates		
– other operations (unallocated)	<b>5,852</b>	6,775
Interests in jointly controlled entities		
– other operations (unallocated)	<b>—</b>	1,226
Unallocated corporate assets	<b>125,221</b>	142,793
	<b>145,995</b>	159,525
Liabilities		
Segment liabilities		
– software development	<b>5,005</b>	5,115
Unallocated corporate liabilities	<b>1,423</b>	1,544
	<b>6,428</b>	6,659
<b>OTHER INFORMATION</b>		
Capital additions		
– software development	<b>4,100</b>	221
– other operations (unallocated)	<b>1,933</b>	—
	<b>6,033</b>	221
Depreciation and amortisation		
– software development	<b>1,865</b>	8,466
– other operations (unallocated)	<b>—</b>	53
	<b>1,865</b>	8,519
Share-based payments		
– software development	<b>3,774</b>	1,770
Allowance on advance made to a jointly controlled entity		
– other operations (unallocated)	<b>1,226</b>	—

**5. BUSINESS AND GEOGRAPHICAL SEGMENTS** (continued)

**Geographical segments**

The Group's operations are mainly situated in Hong Kong and Mainland China (the "PRC"). The following table provides an analysis of the Group's geographical segment information by location of geographical markets:

	<b>Turnover</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Hong Kong	<b>1,608</b>	2,149
PRC	<b>1,049</b>	1,489
	<b><u>2,657</u></b>	<u>3,638</u>

The following is an analysis of the carrying amount of segment assets and capital additions, analysed by the geographical area in which the assets are located:

	<b>Carrying amount of segment assets</b>		<b>Capital additions</b>	
	<b>2007</b>	2006	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Hong Kong	<b>6,792</b>	5,066	<b>1,671</b>	147
PRC	<b>8,130</b>	3,665	<b>4,362</b>	74
	<b><u>14,922</u></b>	<u>8,731</u>	<b><u>6,033</u></b>	<u>221</u>

**6. FINANCE COSTS**

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Interest on		
– a finance lease	<b>(5)</b>	(8)
– bank and other borrowings wholly repayable within five years	<b>—</b>	(7)
– bank borrowings not wholly repayable within five years	<b>(72)</b>	(741)
	<b><u>(77)</u></b>	<u>(756)</u>

**7. (LOSS) PROFIT FOR THE YEAR**

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
(Loss) profit for the year has been arrived at after charging:		
Directors' remuneration (note 8)	<b>5,885</b>	4,454
Other staff's retirement benefits scheme contributions	<b>184</b>	154
Other staff's share-based payments	<b>1,696</b>	1,096
Other staff costs	<b>7,444</b>	7,226
	<b>15,209</b>	12,930
Depreciation and amortisation of property, plant and equipment		
– owned by the Group	<b>1,805</b>	6,169
– held under a finance lease	<b>60</b>	59
	<b>1,865</b>	6,228
Amortisation of product development costs	<b>—</b>	2,291
	<b>1,865</b>	8,519
Auditors' remuneration	<b>759</b>	741
Impairment for amounts due from customers for contract work	<b>348</b>	4,173
Loss on disposal of property, plant and equipment, other than land and buildings	<b>—</b>	29
Operating lease rentals in respect of rented premises	<b>2,467</b>	2,027
and after crediting:		
Gain on disposal of property, plant and equipment	<b>10</b>	—
Interest income from		
– bank	<b>3,095</b>	1,787
– equity-linked notes	<b>5,436</b>	—
Property rental income before deduction of negligible outgoings	<b>109</b>	—

## 8. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 10 (2006: 14) directors were as follows:

	2007				2006					
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Share-based payments	Total emoluments	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Share-based payments	Total emoluments
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Executive directors</b>										
Mr. Cheng Kin Kwan	—	1,489	—	429	1,918	—	1,378	—	97	1,475
Mr. Law Kwai Lam	—	331	12	158	501	—	186	9	—	195
Mr. Chung Yiu Fai	—	537	12	429	978	—	502	12	197	711
Ms. Leung Mei Sheung, Eliza	—	494	12	429	935	—	457	12	63	532
Ms. Zheng Ying Yu	—	118	—	90	208	—	114	—	62	176
Mr. Fung Chun Pong, Louis	—	402	12	45	459	—	224	5	36	265
Mr. Liao Yun	—	118	—	90	208	—	49	—	36	85
Ms. So Mi Ling, Winnie	—	—	—	—	—	—	309	11	—	320
Ms. Wong Wai Ping, Mandy	—	—	—	—	—	—	148	6	—	154
Mr. Pun Chung Sang, Trevor	—	—	—	—	—	—	92	2	—	94
<b>Independent non-executive directors</b>										
Mr. Ng Kwok Tung	90	—	—	136	226	90	—	—	61	151
Ms. Tsang Wai Chun, Marianna	90	—	—	136	226	90	—	—	61	151
Mr. Chan Mei Ying, Spencer	90	—	—	136	226	39	—	—	61	100
Mr. Chong Siu Pui	—	—	—	—	—	45	—	—	—	45
<b>Total</b>	<b>270</b>	<b>3,489</b>	<b>48</b>	<b>2,078</b>	<b>5,885</b>	<b>264</b>	<b>3,459</b>	<b>57</b>	<b>674</b>	<b>4,454</b>

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

## 9. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included three executive directors of the Company, whose emoluments are detailed in note 8 above. The aggregate emoluments of the remaining two highest paid individuals are as follows:

	2007 HK\$'000	2006 HK\$'000
Basic salaries and allowances	879	811
Retirement benefits scheme contributions	24	24
Share-based payments	859	42
	<b>1,762</b>	<b>877</b>

## 10. TAXATION

No provision for taxation has been made in the consolidated financial statements as the Group had no assessable profit for the year.

Pursuant to the relevant laws and regulations in the PRC, the subsidiary in Beijing is entitled to exemption from PRC income tax for the two years ended 31 December 2003 and a 50% relief for the three years ended 31 December 2006.

Taxation for the year is reconciled to (loss) profit for the year as follows:

	2007		2006	
	HK\$'000	%	HK\$'000	%
(Loss) profit for the year	<b>(15,533)</b>		2,144	
Tax at the applicable income tax rate	<b>2,718</b>	<b>17.5</b>	(375)	(17.5)
Tax effect of share of losses of associates	<b>(91)</b>	<b>(0.6)</b>	(223)	(10.4)
Tax effect of share of losses of jointly controlled entities	<b>—</b>	<b>—</b>	(763)	(35.6)
Tax effect of expenses not deductible for tax purposes	<b>(2,194)</b>	<b>(14.1)</b>	(1,932)	(90.1)
Tax effect of income not taxable for tax purposes	<b>478</b>	<b>3.1</b>	6,585	307.1
Tax effect of unrecognised tax losses	<b>(4,285)</b>	<b>(27.6)</b>	(4,265)	(198.9)
Tax effect of utilisation of tax losses previously not recognised	<b>2,388</b>	<b>15.4</b>	1,290	60.2
Effect of different tax rate for subsidiaries operating in other jurisdiction	<b>1,086</b>	<b>7.0</b>	330	15.4
Others	<b>(100)</b>	<b>(0.7)</b>	(647)	(30.2)
Taxation and effective tax rate for the year	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

## 11. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share is based on the following data:

	<b>2007</b>	2006
(Loss) profit for the year attributable to equity holders of the Company for the purposes of basic and diluted (loss) earnings per share	<b><u>HK\$(14,724,000)</u></b>	<u>HK\$2,355,000</u>
<b>Number of ordinary shares:</b>		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	<b><u>1,040,750,983</u></b>	1,022,285,200
Effect of dilutive potential ordinary shares in respect of share options granted		<u>6,212,366</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share		<u>1,028,497,566</u>

No diluted loss per share has been presented for the year as the share options granted by the Company are anti-dilutive.

## 12. INVESTMENT PROPERTIES

	<b>THE GROUP</b> HK\$'000
<b>FAIR VALUE</b>	
Additions during the year	1,933
Fair value change during the year	<u>167</u>
At 31 March 2007	<u>2,100</u>

The fair values of the Group's investment properties at 31 March 2007 have been arrived at on the basis of valuation carried out on that date by LCH (Asia Pacific) Surveyors Limited ("LCH"), independent qualified professional valuers not connected with the Group. LCH are members of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant location. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

The Group's property interests which are held under medium-term land use rights are situated in the PRC and are held under operating leases to earn rentals or for capital appreciation purposes.



### 13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Computer equipment HK\$'000	Furniture and fixtures HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Office equipment HK\$'000	Total HK\$'000
<b>THE GROUP</b>							
<b>COST</b>							
At 1 April 2005	192,533	19,075	1,453	10,050	284	11,072	234,467
Currency realignment	172	154	18	45	—	33	422
Additions	—	187	—	—	—	34	221
Disposals	(128,198)	(2,146)	—	(2,328)	—	(564)	(133,236)
	<u>64,507</u>	<u>17,270</u>	<u>1,471</u>	<u>7,767</u>	<u>284</u>	<u>10,575</u>	<u>101,874</u>
At 31 March 2006	64,507	17,270	1,471	7,767	284	10,575	101,874
Currency realignment	98	207	26	64	—	47	442
Additions	2,031	507	4	1,373	—	185	4,100
Disposals	—	(3,127)	(357)	(6,152)	—	(5,255)	(14,891)
	<u>66,636</u>	<u>14,857</u>	<u>1,144</u>	<u>3,052</u>	<u>284</u>	<u>5,552</u>	<u>91,525</u>
At 31 March 2007	66,636	14,857	1,144	3,052	284	5,552	91,525
<b>DEPRECIATION AND AMORTISATION AND IMPAIRMENT</b>							
At 1 April 2005	68,571	15,477	1,144	8,656	117	9,132	103,097
Currency realignment	83	116	13	35	—	22	269
Provided for the year	577	2,572	243	1,190	57	1,589	6,228
Eliminated on disposals	(7,004)	(2,114)	—	(2,328)	—	(562)	(12,008)
	<u>62,227</u>	<u>16,051</u>	<u>1,400</u>	<u>7,553</u>	<u>174</u>	<u>10,181</u>	<u>97,586</u>
At 31 March 2006	62,227	16,051	1,400	7,553	174	10,181	97,586
Currency realignment	7	184	24	57	—	36	308
Provided for the year	181	796	38	650	58	142	1,865
Eliminated on disposals	—	(3,127)	(351)	(6,133)	—	(5,255)	(14,866)
	<u>62,415</u>	<u>13,904</u>	<u>1,111</u>	<u>2,127</u>	<u>232</u>	<u>5,104</u>	<u>84,893</u>
At 31 March 2007	62,415	13,904	1,111	2,127	232	5,104	84,893
<b>NET BOOK VALUES</b>							
At 31 March 2007	<u>4,221</u>	<u>953</u>	<u>33</u>	<u>925</u>	<u>52</u>	<u>448</u>	<u>6,632</u>
At 31 March 2006	<u>2,280</u>	<u>1,219</u>	<u>71</u>	<u>214</u>	<u>110</u>	<u>394</u>	<u>4,288</u>

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

	<b>Computer equipment</b> HK\$'000	<b>Furniture and fixtures</b> HK\$'000	<b>Leasehold improvements</b> HK\$'000	<b>Motor vehicles</b> HK\$'000	<b>Office equipment</b> HK\$'000	<b>Total</b> HK\$'000
<b>THE COMPANY</b>						
<b>COST</b>						
At 1 April 2005	11,796	832	6,153	284	8,347	27,412
Additions	139	—	—	—	8	147
Disposals	(619)	—	—	—	(4)	(623)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2006	11,316	832	6,153	284	8,351	26,936
Additions	112	4	1,373	—	182	1,671
Disposals	(2,906)	(357)	(6,153)	—	(5,050)	(14,466)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2007	8,522	479	1,373	284	3,483	14,141
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>DEPRECIATION</b>						
At 1 April 2005	9,549	680	5,118	119	6,844	22,310
Provided for the year	1,717	128	992	57	1,370	4,264
Eliminated on disposals	(597)	—	—	—	(1)	(598)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2006	10,669	808	6,110	176	8,213	25,976
Provided for the year	472	17	481	56	100	1,126
Eliminated on disposals	(2,905)	(351)	(6,133)	—	(5,050)	(14,439)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2007	8,236	474	458	232	3,263	12,663
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>NET BOOK VALUES</b>						
At 31 March 2007	<u>286</u>	<u>5</u>	<u>915</u>	<u>52</u>	<u>220</u>	<u>1,478</u>
At 31 March 2006	<u>647</u>	<u>24</u>	<u>43</u>	<u>108</u>	<u>138</u>	<u>960</u>

At the balance sheet date, the net book value of property interests comprises buildings erected on land held under medium-term land use right in the PRC of HK\$4,221,000 (2006: HK\$2,280,000).

Also, at the balance sheet date, the Group has pledged its building with a net book value of HK\$2,226,000 (2006: HK\$2,280,000) to a bank to secure the credit facilities granted to the Group.

In addition, at the balance sheet date, the net book value of the Group's and the Company's office equipment held under a finance lease was HK\$60,000 (2006: HK\$120,000).

## 14. INVESTMENTS IN SUBSIDIARIES

	<b>THE COMPANY</b> <b>2007 &amp; 2006</b> HK\$'000
Unlisted investments, at cost	21,310
Less: Impairment loss recognised	<u>(13,310)</u>
	<u>8,000</u>

Details of the Company's principal subsidiaries at 31 March 2007 are set out in note 33.

## 15. INTERESTS IN ASSOCIATES

	<b>THE GROUP</b>		<b>THE COMPANY</b>	
	<b>2007</b>	2006	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>94,686</b>	94,255	<b>94,686</b>	94,255
Share of post-acquisition reserves	<b>(88,834)</b>	(87,480)	<b>—</b>	—
Less: Impairment loss recognised	<b>—</b>	—	<b>(88,834)</b>	(87,480)
	<u><b>5,852</b></u>	<u>6,775</u>	<u><b>5,852</b></u>	<u>6,775</u>

The principal investment in associate at 31 March 2007 represents the Company's 25% equity interest in 寧夏教育信息技術股份有限公司 (Ningxia Educational Information & Technology Co., Ltd.) ("NEITC"), a sino-foreign joint stock limited company established in the PRC and engaged in the development of education informatisation program in Ningxia Hui Autonomous Region of the PRC.

In the opinion of the directors, the above associate principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The summarised financial information in respect of the associates is set out below:

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Total assets	<b>25,124</b>	31,865
Total liabilities	<b>(1,745)</b>	(4,803)
Net assets	<u><b>23,379</b></u>	<u>27,062</u>
Group's share of net assets of associates	<u><b>5,852</b></u>	<u>6,775</u>
Revenue	<u><b>24,792</b></u>	<u>14,459</u>
Loss for the year	<u><b>(1,225)</b></u>	<u>(5,087)</u>
Loss for the year attributable to the Group	<u><b>(520)</b></u>	<u>(1,274)</u>

## 16. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP		THE COMPANY	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Unlisted capital contributions, at cost	<b>29,615</b>	29,615	<b>29,615</b>	29,615
Share of post-acquisition losses	<b>(29,615)</b>	(29,615)	<b>—</b>	—
Less: Impairment loss recognised	<b>—</b>	—	<b>(29,615)</b>	(29,615)
Loan to a jointly controlled entity	<b>568</b>	568	<b>568</b>	568
Amount due from a jointly controlled entity	<b>658</b>	658	<b>658</b>	658
Less: Allowance on advance made to a jointly controlled entity	<b>(1,226)</b>	—	<b>(1,226)</b>	—
	<b>—</b>	1,226	<b>—</b>	1,226

The principal investment in jointly controlled entities at 31 March 2007 represents the Company's 29% interest in 珠海南方软件园发展有限公司 (Zhuhai Southern Software Park Development Company Limited) ("ZSSP"), a sino-foreign joint venture established in the PRC and engaged in development and operation of a software park for a term of 30 years commencing November 2000.

In the opinion of the directors, the above jointly controlled entity principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other jointly controlled entities would, in the opinion of the directors, result in particulars of excessive length.

The summarised financial information in respect of share of jointly controlled entities which were accounted for using the equity method is set out below:

	2007 HK\$'000	2006 HK\$'000
Non-current assets	<b>80,293</b>	93,492
Current assets	<b>3,682</b>	2,814
Current liabilities	<b>(19,038)</b>	(16,802)
Non-current liabilities	<b>(70,871)</b>	(81,702)
Income	<b>7,679</b>	2,386
Expenses	<b>(11,415)</b>	(8,946)

**16. INTERESTS IN JOINTLY CONTROLLED ENTITIES** (continued)

The Group has discontinued recognition of its share of losses of certain jointly controlled entities. The amounts of unrecognised share of those jointly controlled entities, both for the year and cumulatively, are as follows:

	<b>THE GROUP</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Unrecognised share of losses of jointly controlled entities for the year	<b><u>(3,736)</u></b>	<u>(2,198)</u>
Accumulated unrecognised share of losses of jointly controlled entities	<b><u>(5,934)</u></b>	<u>(2,198)</u>

**17. EQUITY-LINKED NOTES**

Equity-linked notes are designated as financial assets at fair value through profit or loss. Major terms of the equity-linked notes are as follows:

<b>Principal amount</b>	<b>Maturity</b>
HK\$15,000,000	2009
HK\$30,000,000	2009
HK\$8,000,000	2010

The equity-linked notes are subject to mandatory redemption clauses at various intervals until maturity dates depending on the market prices of the Hong Kong listed securities underlying the equity-linked notes. The equity-linked notes will be redeemed based on the original principal amounts. The equity-linked notes are interest bearing and the interest rates range between 17% and 23% per annum.

At maturity date, if the equity-linked notes, depending on the market prices of the underlying equity securities and certain pre-determined price levels, are still outstanding, the equity-linked notes will be redeemed by the issuer at the principal amounts in cash or shares which may be lower than the principal amounts.

The Group's equity-linked notes are measured at fair value at the balance sheet date. Their fair values are determined based on the valuation provided by the bank at the balance sheet date. Accordingly, a fair value change on equity-linked notes of HK\$1,701,000 is recognised in the income statement for the year ended 31 March 2007.

## 18. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	THE GROUP		THE COMPANY	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contract costs incurred to date plus recognised profits less recognised loss	<b>41,635</b>	55,500	<b>2,123</b>	870
Less: Progress billings	<b>(32,395)</b>	(46,311)	<b>(1,902)</b>	(579)
Less: Impairment loss recognised	<b>(8,924)</b>	(8,576)	<b>(16)</b>	(88)
	<b>316</b>	613	<b>205</b>	203

During the year, the Group and the Company undertook a review of the amounts due from customers for contract work to assess the recoverability of the amount. The directors determined that a number of these amounts due from customers were impaired due to the worsen financial position of the customers. The recoverable amounts due from the relevant customers amounting to HK\$348,000 (2006: HK\$4,173,000) have been determined to be impaired and written off to the income statement.

## 19. TRADE AND OTHER RECEIVABLES

	THE GROUP		THE COMPANY	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables	<b>204</b>	100	<b>204</b>	90
Monies placed with a financial institution for share subscription in an initial public offering	<b>3,909</b>	—	<b>3,909</b>	—
Prepayments to suppliers	<b>309</b>	396	<b>250</b>	372
Property rental and utility deposits	<b>2,792</b>	2,457	<b>2,305</b>	2,385
Amount due from an associate	<b>11</b>	—	<b>—</b>	—
Other receivables	<b>749</b>	882	<b>132</b>	598
	<b>7,974</b>	3,835	<b>6,800</b>	3,445

Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable within 30 days of issuance, except for certain well established customers. The following is an aged analysis of trade receivables at the balance sheet date:

Age	THE GROUP	
	2007	2006
	HK\$'000	HK\$'000
0 to 30 days	<b>89</b>	92
31 to 60 days	<b>115</b>	8
	<b>204</b>	100

## 20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The available-for-sale financial assets at 31 March 2007 represent Hong Kong listed securities which are stated at fair value by reference to quoted bid prices.

## 21. OTHER ASSETS

### Pledged bank deposits

The balance represents deposits pledged to banks to secure the short-term credit facilities granted to the Group and the Company.

The deposits carry interest at the rates ranging between 2.25% and 4.37% (2006: between 2.13% and 4%) per annum and will be released upon repayment of certain secured bank loans.

### Bank balances and cash

Bank balances and cash comprise cash held by the Group and the Company and short-term bank deposits which carry interest at the rates ranging between 3.24% and 4.95% (2006: between 1.07% and 4.3%) per annum with an original maturity of three months or less.

## 22. ACCOUNTS PAYABLES

	THE GROUP		THE COMPANY	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Customers' deposits received	<b>2,146</b>	1,785	<b>506</b>	249
Other payables	<b>2,950</b>	3,420	<b>1,660</b>	1,551
	<b>5,096</b>	5,205	<b>2,166</b>	1,800

## Notes to the Financial Statements

For the Year Ended 31 March 2007

### 23. OBLIGATIONS UNDER A FINANCE LEASE

	THE GROUP AND THE COMPANY			
	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amount payable under a finance lease:				
Within one year	<b>54</b>	54	<b>51</b>	49
Between one to two years	<b>—</b>	54	<b>—</b>	51
	<b>54</b>	108	<b>51</b>	100
Less: Future finance charges	<b>3</b>	8	<b>—</b>	—
Present value of lease obligations	<b>51</b>	100	<b>51</b>	100
Less: Amount due within one year shown under current liabilities			<b>51</b>	49
Amount due after one year			<b>—</b>	51

The Group's obligations under a finance lease are secured by the lessor's charge over the leased assets. The effective borrowing rate was 5.25% per annum. Interest rate was fixed at the contract date, and thus expose the Group to fair value interest risk.

### 24. AMOUNTS DUE TO SUBSIDIARIES

The amounts are unsecured, interest-free and are repayable on demand.



## 25. BANK LOAN

The exposure of the Group's fixed-rate borrowings and the contractual maturity dates (or repricing dates) are as follows:

	<b>THE GROUP</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Secured fixed-rate borrowings:		
Within one year	<b>133</b>	122
In more than one year but not more than two years	<b>141</b>	129
In more than two years but not more than three years	<b>149</b>	147
In more than three years but not more than four years	<b>157</b>	144
In more than four years but not more than five years	<b>165</b>	139
	<b>471</b>	430
In more than five years	<b>536</b>	673
	<b>1,281</b>	1,354
Less: Amount due within one year shown under current liabilities	<b>133</b>	122
Amount due after one year	<b>1,148</b>	1,232

The bank loan is secured by the Group's building in the PRC, carrying interest at 5.31% per annum and repayable in monthly instalments commencing from 15 March 2000 to 15 March 2015.

At 31 March 2007, the Group had available HK\$5 million (2006: HK\$5 million) of undrawn credit facilities.

## 26. SHARE CAPITAL

	<b>Number of ordinary shares</b>	<b>Amount</b> HK\$'000
Authorised:		
Ordinary shares of HK\$0.05 each		
– at 1 April 2005, 31 March 2006 and 31 March 2007	2,500,000,000	125,000
	<u>2,500,000,000</u>	<u>125,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.05 each		
– at 1 April 2005	1,009,481,503	50,474
– exercise of share options	22,000,000	1,100
	<u>1,031,481,503</u>	<u>51,574</u>
– at 31 March 2006	1,031,481,503	51,574
– exercise of share options	22,370,000	1,119
	<u>1,053,851,503</u>	<u>52,693</u>
– at 31 March 2007	<u>1,053,851,503</u>	<u>52,693</u>

During the year, 5,950,000, 14,470,000, 400,000, 300,000, 450,000 and 800,000 (2006: 750,000, 100,000, 450,000 and 20,700,000) share options were exercised at a subscription price of HK\$0.0722 per share, HK\$0.0772 per share, HK\$0.0870 per share, HK\$0.0900, HK\$0.0982 and HK\$0.1530 per share respectively (2006: HK\$0.0870 per share, HK\$0.0900 per share, HK\$0.0982 per share and HK\$0.0722 per share respectively), resulting in an aggregate issue of 22,370,000 (2006: 22,000,000) ordinary shares of HK\$0.05 each in the Company.

All the shares issued during the year rank pari passu with the then existing shares in all respects.

## 27. SHARE OPTIONS

### (a) 2000 share option scheme

Pursuant to the share option scheme adopted by the Company on 21 November 2000 (the "2000 share option scheme"), the Company may grant options at HK\$1 per offer to any full-time employees including executive directors of the Company or its subsidiaries, for the primary purpose of providing incentives to them, to subscribe for shares in the Company. The exercise price of the share option will be determined at the higher of the average of closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options; the closing price of the shares on the Stock Exchange on the date of grant; and the nominal value of the shares.

Details of the movements in the number of share options during the year under the Company's 2000 share option scheme are as follows:

Type of participants	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options					
				Outstanding at 1.4.2005	Reclassified during the year	Lapsed during the year	Outstanding at 31.3.2006	Lapsed during the year	Outstanding at 31.3.2007
Directors	9.4.2001	9.4.2002 - 8.4.2005	0.592	100,000	—	(100,000)	—	—	—
	27.4.2001	27.4.2002 - 26.4.2005	0.818	1,700,000	—	(1,700,000)	—	—	—
	3.10.2001	3.10.2002 - 2.10.2005	0.445	3,200,000	400,000	(3,600,000)	—	—	—
	22.4.2002	22.4.2003 - 21.4.2006	0.455	1,250,000	200,000	—	1,450,000	(1,450,000)	—
Employees	27.4.2001	27.4.2002 - 26.4.2005	0.818	150,000	—	(150,000)	—	—	—
	3.10.2001	3.10.2002 - 2.10.2005	0.445	2,800,000	(400,000)	(2,400,000)	—	—	—
	22.4.2002	22.4.2003 - 21.4.2006	0.455	2,300,000	(200,000)	(600,000)	1,500,000	(1,500,000)	—
				<u>11,500,000</u>	<u>—</u>	<u>(8,550,000)</u>	<u>2,950,000</u>	<u>(2,950,000)</u>	<u>—</u>

Pursuant to an ordinary resolution passed in the Company's extraordinary general meeting held on 28 April 2003, the Company has terminated the operation of the 2000 share option scheme (such that no further options could thereafter be offered under the 2000 share option scheme but outstanding options granted under the 2000 share option scheme shall remain effective subject to the relevant provisions of the 2000 share option scheme) and approved and adopted the 2003 new share option scheme. There were no share options outstanding under the 2000 Share Option Scheme at 31 March 2007.

**27. SHARE OPTIONS** (continued)

**(b) 2003 share option scheme**

The options of the 2003 new share option scheme may be granted to any director, employee, consultant, customer, supplier, agent, partner, provider of financial assistance, shareholder or adviser of or contractor to the Group or a company in which the Group holds an interest or a subsidiary of such company ("Eligible Participants"), the trustee of the Eligible Participants or a company beneficially owned by the Eligible Participants. The purpose of the 2003 share option scheme is to recognise and acknowledge the contributions that the Eligible Participants had made or may make to the Group. The total number of shares available for issue under the 2003 share option scheme is 243,906,000 shares, representing 23.14% and 22.09% of the issued share capital of the Company at 31 March 2007 and 18 June 2007 respectively. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2003 share option scheme and other share option schemes of the Company shall not, in aggregate, exceed 30% of the shares of the Company in issue from time to time. No options may be granted to any Eligible Participants which if exercised in full would result in the total number of shares issued and to be issued upon exercise of the share options already granted to such Eligible Participants in the 12-month period up to and including the date of such new grant exceeding 1% of the issued share capital of the Company as at the date of grant unless approval is obtained from the shareholders of the Company. The exercisable period is determined by the board of directors in its absolute discretion, save that such period shall not be more than ten years from the date of grant. There is no generally applicable minimum period for which the options must be held before it can be exercised.

An offer of the grant of an option shall be accepted when the Company receives in writing the acceptance of the offer from the grantee together with a remittance in favour of the Company of HK\$1 by way of consideration for the grant thereof. The option shall remain open for acceptance by the Eligible Participants concerned for a period of 28 days from the date of offer. The exercise price shall be determined by the board of directors at the time of grant of the relevant option and notified to each grantee and shall not be less than the highest of:

- (i) the closing price of a share as stated in the Stock Exchange's daily quotation sheet on the date of grant of the relevant option, which must be a business day;
- (ii) an amount equivalent to the average closing price of shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the relevant option; and
- (iii) the nominal value of a share.

The 2003 share option scheme is valid for a period of ten years commencing on the adoption date.

**27. SHARE OPTIONS** (continued)

Details of the movements in the number of share options granted during the year under the Company's 2003 share option scheme are as follows:

Type of participants	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options										2006 Notes
				Exercise Outstanding at 1.4.2005	Reclassified during the year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.3.2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.3.2007	
Directors	5.9.2003	5.9.2003-4.9.2013	0.2280	32,960,000	2,800,000	—	—	(11,000,000)	24,760,000	—	—	—	24,760,000	N/A
	26.11.2003	26.11.2003-25.11.2013	0.2300	400,000	400,000	—	—	(400,000)	400,000	—	—	—	400,000	N/A
	8.12.2003	8.12.2003-7.12.2013	0.2130	6,300,000	—	—	—	(400,000)	5,900,000	—	—	—	5,900,000	N/A
	9.1.2004	9.1.2004-8.1.2014	0.1900	12,000,000	1,790,000	—	—	(4,000,000)	9,790,000	—	—	—	9,790,000	N/A
	25.2.2004	25.2.2004-24.2.2014	0.1900	25,630,000	—	—	—	(5,680,000)	19,950,000	—	—	—	19,950,000	N/A
	19.4.2004	19.4.2004-18.4.2014	0.2096	—	600,000	—	—	—	600,000	—	—	—	600,000	N/A
	16.9.2004	16.9.2004-15.9.2014	0.0870	2,300,000	800,000	—	—	(300,000)	2,800,000	—	—	—	2,800,000	11
	30.9.2004	30.9.2004-29.9.2014	0.0900	—	800,000	—	—	—	800,000	—	—	—	800,000	N/A
	13.12.2004	13.12.2004-12.12.2014	0.0982	4,530,000	600,000	—	—	(300,000)	4,830,000	—	—	—	4,830,000	N/A
	28.2.2005	28.2.2005-27.2.2015	0.0722	21,000,000	2,000,000	—	—	(8,500,000)	12,500,000	—	—	—	7,150,000	12
	22.9.2005	22.9.2005-21.9.2015	0.0920	—	—	4,000,000	—	—	4,000,000	—	—	—	4,000,000	13
	24.3.2006	24.3.2006-23.3.2016	0.1530	—	—	3,800,000	—	—	3,800,000	—	—	—	3,800,000	14
	26.9.2006	26.9.2006-25.9.2016	0.0772	—	—	—	—	—	—	46,000,000	—	—	35,500,000	14
Employees	5.9.2003	5.9.2003-4.9.2013	0.2280	28,500,000	(2,800,000)	—	—	(900,000)	24,800,000	—	—	(300,000)	24,500,000	N/A
	15.9.2003	15.9.2003-14.9.2013	0.2550	9,500,000	—	—	—	(900,000)	8,600,000	—	—	(200,000)	8,400,000	N/A
	26.11.2003	26.11.2003-25.11.2013	0.2300	4,400,000	(400,000)	—	—	(1,400,000)	2,600,000	—	—	(200,000)	2,400,000	N/A
	8.12.2003	8.12.2003-7.12.2013	0.2130	800,000	—	—	—	—	800,000	—	—	—	800,000	N/A
	9.1.2004	9.1.2004-8.1.2014	0.1900	12,024,000	(1,790,000)	—	—	(2,940,000)	7,294,000	—	—	(698,000)	6,596,000	N/A
	25.2.2004	25.2.2004-24.2.2014	0.1900	20,000,000	—	—	—	—	20,000,000	—	—	—	20,000,000	N/A
	19.4.2004	19.4.2004-18.4.2014	0.2096	3,150,000	(600,000)	—	—	(1,350,000)	1,200,000	—	—	(450,000)	750,000	N/A
	16.9.2004	16.9.2004-15.9.2014	0.0870	7,900,000	(800,000)	—	—	(450,000)	5,850,000	—	—	(400,000)	5,450,000	15
	30.9.2004	30.9.2004-29.9.2014	0.0900	8,900,000	(800,000)	—	—	(100,000)	4,400,000	—	—	(500,000)	3,600,000	16
	13.12.2004	13.12.2004-12.12.2014	0.0982	3,100,000	(600,000)	—	—	(450,000)	2,050,000	—	—	(1,600,000)	1,600,000	17
	28.2.2005	28.2.2005-27.2.2015	0.0722	23,400,000	(2,000,000)	—	—	(12,200,000)	6,700,000	—	—	(200,000)	5,900,000	18
	11.5.2005	11.5.2005-10.5.2015	0.1038	—	—	3,000,000	—	—	3,000,000	—	—	—	3,000,000	19
	22.9.2005	22.9.2005-21.9.2015	0.0920	—	—	4,800,000	—	—	4,800,000	—	—	—	4,800,000	13
24.3.2006	24.3.2006-23.3.2016	0.1530	—	—	3,800,000	—	—	3,800,000	—	—	(200,000)	3,600,000	14	
26.9.2006	26.9.2006-25.9.2016	0.0772	—	—	—	—	—	—	37,500,000	—	—	(500,000)	33,000,000	18
				226,794,000	—	19,400,000	—	(38,170,000)	186,024,000	—	—	(3,248,000)	243,906,000	

**27. SHARE OPTIONS** (continued)

**2007 Notes:**

- (1) The weighted average closing prices of the Company's shares immediately before the date of exercise of 1,350,000 options on 6 April 2006, 1,000,000 options on 25 May 2006, 1,000,000 options on 26 September 2006, 500,000 options on 23 January 2007, 1,000,000 options on 25 January 2007 and 500,000 options on 26 February 2007 were HK\$0.1490, HK\$0.1000, HK\$0.0770, HK\$0.1200, HK\$0.1200 and HK\$0.1320 respectively.

The closing prices of the Company's shares at the date of exercise of 1,350,000 options on 7 April 2006, 1,000,000 options on 26 May 2006, 1,000,000 options on 27 September 2006, 500,000 options on 24 January 2007, 1,000,000 options on 26 January 2007, 500,000 options on 27 February 2007 and HK\$0.1400, HK\$0.1000, HK\$0.0770, HK\$0.1200, HK\$0.1180 and HK\$0.1310 respectively.

- (2) The weighted average closing price of the Company's shares immediately before the date of exercise of 800,000 options on 31 March 2006 was HK\$0.1450.

The closing price of the Company's shares at the date of exercise of 800,000 options on 3 April 2006 was HK\$0.1480.

- (3) The closing price of the Company's shares immediately before the date of grant on 25 September 2006 was HK\$0.0760 while the weighted average closing prices of the Company's shares immediately before the date of exercise of 9,500,000 options on 27 September 2006 and 1,000,000 options on 2 March 2007 were HK\$0.0770 and HK\$0.1280 respectively.

The closing prices of the Company's shares at the date of exercise of 9,500,000 options on 28 September 2006 and 1,000,000 options on 5 March 2007 were HK\$0.0770 and HK\$0.1180 respectively.

- (4) The weighted average closing price of the Company's shares immediately before the date of exercise of 400,000 options on 11 April 2006 was HK\$0.1430.

The closing price of the Company's shares at the date of exercise of 400,000 options on 12 April 2006 was HK\$0.1430.

- (5) The weighted average closing price of the Company's shares immediately before the date of exercise of 300,000 options on 11 April 2006 was HK\$0.1430.

The closing price of the Company's shares at the date of exercise of 300,000 options on 12 April 2006 was HK\$0.1430.

- (6) The weighted average closing prices of the Company's shares immediately before the date of exercise of 300,000 options on 10 April 2006 and 150,000 options on 26 April 2006 were HK\$0.1490 and HK\$0.1450 respectively.

The closing prices of the Company's shares at the date of exercise of 300,000 options on 11 April 2006 and 150,000 options on 27 April 2006 were HK\$0.1430 and HK\$0.1450 respectively.

- (7) The weighted average closing prices of the Company's shares immediately before the date of exercise of 400,000 options on 23 January 2007 and 200,000 options on 30 January 2007 were HK\$0.1200 and HK\$0.1120 respectively.

The closing prices of the Company's shares at the date of exercise of 400,000 options on 24 January 2007 and 200,000 options on 31 January 2007 were HK\$0.1200 and HK\$0.1140 respectively.

**27. SHARE OPTIONS** (continued)

- (8) The closing price of the Company's shares immediately before the date of grant on 25 September 2006 was HK\$0.0760 while the weighted average closing prices of the Company's shares immediately before the date of exercise of 500,000 options on 11 December 2006, 120,000 options on 9 January 2007, 500,000 options on 29 January 2007, 580,000 options on 30 January 2007, 1,000,000 options on 27 February 2007, 770,000 options on 2 March 2007 and 500,000 options on 5 March 2007 were HK\$0.1080, HK\$0.1170, HK\$0.1160, HK\$0.1120, HK\$0.1310, HK\$0.1280 and HK\$0.1180 respectively.

The closing prices of the Company's shares at the date of exercise of 500,000 options on 12 December 2006, 120,000 options on 10 January 2007, 500,000 options on 30 January 2007, 580,000 options on 31 January 2007, 1,000,000 options on 28 February 2007, 770,000 options on 5 March 2007 and 500,000 options on 6 March 2007 were HK\$0.1100, HK\$0.1220, HK\$0.1120, HK\$0.1140, HK\$0.1320, HK\$0.1180 and HK\$0.1240 respectively.

2006 Notes:

- (1) The weighted average closing price of the Company's shares immediately before the date of exercise of 300,000 options on 13 April 2005 was HK\$0.1100.

The closing price of the Company's shares at the date of exercise of 300,000 options on 14 April 2005 was HK\$0.1040.

- (2) The weighted average closing prices of the Company's shares immediately before the date of exercise of 1,000,000 options on 30 March 2005, 1,000,000 options on 6 April 2005, 2,000,000 options on 7 April 2005, 1,000,000 options on 18 April 2005, 500,000 options on 31 August 2005, 1,000,000 options on 3 January 2006, 1,000,000 options on 10 March 2006 and 1,000,000 options on 17 March 2006 were HK\$0.0900, HK\$0.1180, HK\$0.1080, H\$0.1000, HK\$0.0850, HK\$0.0790, HK\$0.1080 and HK\$0.1440 respectively.

The closing prices of the Company's shares at the date of exercise of 1,000,000 options on 31 March 2005, 1,000,000 options on 7 April 2005, 2,000,000 options on 8 April 2005, 1,000,000 options on 19 April 2005, 500,000 options on 1 September 2005, 1,000,000 options on 4 January 2006, 1,000,000 options on 13 March 2006 and 1,000,000 options on 20 March 2006 were HK\$0.1000, HK\$0.1080, HK\$0.1000, H\$0.1150, HK\$0.0800, HK\$0.0790, HK\$0.1200 and HK\$0.1370 respectively.

- (3) The closing price of the Company's shares immediately before the date of grant on 21 September 2005 was HK\$0.0880.

- (4) The closing price of the Company's shares immediately before the date of grant on 23 March 2006 was HK\$0.1580.

- (5) The weighted average closing prices of the Company's shares immediately before the date of exercise of 150,000 options on 15 April 2005 and 300,000 options on 15 March 2006 were HK\$0.1080 and HK\$0.1410 respectively.

The closing prices of the Company's shares at the date of exercise of 150,000 options on 18 April 2005 and 300,000 options on 16 March 2006 were HK\$0.1000 and HK\$0.1450 respectively.

- (6) The weighted average closing price of the Company's shares immediately before the date of exercise of 100,000 options on 22 March 2006 was HK\$0.1580.

The closing price of the Company's shares at the date of exercise of 100,000 options on 23 March 2006 was HK\$0.1580.

**27. SHARE OPTIONS** (continued)

- (7) The weighted average closing price of the Company's shares immediately before the date of exercise of 450,000 options on 14 March 2006 was HK\$0.1380.

The closing price of the Company's shares at the date of exercise of 450,000 options on 15 March 2006 was HK\$0.1410.

- (8) The weighted average closing prices of the Company's shares immediately before the date of exercise of 3,650,000 options on 30 March 2005, 600,000 options on 1 April 2005, 100,000 options on 4 April 2005, 100,000 options on 8 April 2005, 100,000 options on 12 April 2005, 200,000 options on 14 April 2005, 200,000 options on 15 April 2005, 50,000 options on 20 April 2005, 100,000 options on 13 May 2005, 3,000,000 options on 13 September 2005, 1,000,000 options on 13 October 2005, 1,000,000 options on 10 March 2006, 400,000 options on 14 March 2006, 1,000,000 options on 17 March 2006, 400,000 options on 20 March 2006, 200,000 options on 21 March 2006 and 100,000 options on 22 March 2006 were HK\$0.0900, HK\$0.1420, HK\$0.1300, HK\$0.1000, HK\$0.1140, HK\$0.1040, HK\$0.1080, HK\$0.1140, HK\$0.0880, HK\$0.0920, HK\$0.0900, HK\$0.1080, HK\$0.1380, HK\$0.1440, HK\$0.1370, HK\$0.1640 and HK\$0.1580 respectively.

The closing prices of the Company's shares at the date of exercise of 3,650,000 options on 31 March 2005, 600,000 options on 4 April 2005, 100,000 options on 6 April 2005, 100,000 options on 11 April 2005, 100,000 options on 13 April 2005, 200,000 options on 15 April 2005, 200,000 options on 18 April 2005, 50,000 options on 21 April 2005, 100,000 options on 16 May 2005, 3,000,000 options on 14 September 2005, 1,000,000 options on 14 October 2005, 1,000,000 options on 13 March 2006, 400,000 options on 15 March 2006, 1,000,000 options on 20 March 2006, 400,000 options on 21 March 2006, 200,000 options on 22 March 2006 and 100,000 options on 23 March 2006 were HK\$0.1000, HK\$0.1300, HK\$0.1180, HK\$0.1080, HK\$0.1100, HK\$0.1080, HK\$0.1000, HK\$0.1050, HK\$0.0880, HK\$0.0920, HK\$0.0870, HK\$0.1200, HK\$0.1410, HK\$0.1370, HK\$0.1640, HK\$0.1580 and HK\$0.1580 respectively.

- (9) The closing price of the Company's shares immediately before the date of grant on 10 May 2005 was HK\$0.1020.

**(c) Share-based payment transactions**

During the year ended 31 March 2007, options were granted on 26 September 2006. The estimated fair value of the options granted on that date was HK\$0.0452.

The Company used the Black-Scholes option pricing model (the "Model") to value the share options granted during the year. The Model is one of the commonly used models to estimate the fair value of the option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.



**27. SHARE OPTIONS** (continued)

Details of the fair value of share option determined at the date of grant using the Model with the inputs are as follows:

	<b>26.9.2006</b>
Closing share price	HK\$0.0770
Exercise price	HK\$0.0772
Expected volatility	82.23%
Expected life	5 years
Risk-free rate	3.67%
Expected dividend yield	<u>0%</u>

Expected volatility was determined by using the historical volatility of the Company's share price over the previous year. The expected life used in the Model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expense of HK\$3,774,000 for the year ended 31 March 2007 (2006: HK\$1,770,000) in relation to share options granted by the Company.

**28. RESERVES**

	<b>Share premium</b>	<b>Share options reserve</b>	<b>Investment revaluation reserve</b>	<b>Deficit</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE COMPANY</b>					
At 1 April 2005	630,625	—	—	(563,008)	67,617
Issue of shares	513	—	—	—	513
Expenses incurred in connection with the issue of shares	(16)	—	—	—	(16)
Recognition of equity settled share-based payments	—	1,770	—	—	1,770
Loss for the year	—	—	—	(14,348)	(14,348)
At 31 March 2006	631,122	1,770	—	(577,356)	55,536
Issue of shares	656	—	—	—	656
Expenses incurred in connection with the issue of shares	(11)	—	—	—	(11)
Transfer of share option reserve on exercise of share options	751	(751)	—	—	—
Recognition of equity settled share-based payments	—	3,774	—	—	3,774
Fair value change in available-for-sale financial assets	—	—	(578)	—	(578)
Loss for the year	—	—	—	(13,837)	(13,837)
At 31 March 2007	<u>632,518</u>	<u>4,793</u>	<u>(578)</u>	<u>(591,193)</u>	<u>45,540</u>

At the balance sheet date, the Company had no reserves available for distribution to shareholders.

## 29. DEFERRED TAXATION

At the balance sheet date, the Group and the Company has unutilised tax losses of approximately HK\$290 million (2006: HK\$285 million) and HK\$173 million (2006: HK\$165 million) respectively available to set off against future assessable profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profit stream. These tax losses of the Group may be carried forward indefinitely except an amount of approximately HK\$16 million (2006: HK\$21 million) which may be carried forward for a maximum of five years. The tax losses of the Company may be carried forward indefinitely.

## 30. OPERATING LEASE COMMITMENTS

### The Group and the Company as lessee

At the balance sheet date, the Group and the Company were committed to make the following future minimum lease payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Within one year	<b>864</b>	2,390	<b>569</b>	2,155
In the second to fifth year inclusive	<b>582</b>	1,346	<b>546</b>	1,115
	<b>1,446</b>	3,736	<b>1,115</b>	3,270

### The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments in respect of investment properties:

	THE GROUP	
	2007 HK\$'000	2006 HK\$'000
Within one year	<b>187</b>	—
In the second to fifth year inclusive	<b>130</b>	—
	<b>317</b>	—

### **31. CONTINGENT LIABILITIES**

#### **Guarantees given**

At the balance sheet date, the Group has given guarantee of RMB4.9 million (2006: RMB5 million) to a bank to secure the credit facilities granted to ZSSP. At 31 March 2007, the amount of facilities utilised by ZSSP amounted to RMB4.9 million (2006: RMB5 million). No amount was recognised in the financial statements as financial guarantee obligations as at 31 March 2006 and 31 March 2007 as the amounts involved were insignificant.

At the balance sheet date, the Company has given corporate guarantees of HK\$5 million (2006: HK\$5 million) to certain banks to secure the credit facilities granted to its subsidiaries. No subsidiaries has utilised the credit facilities at the balance sheet date.

#### **Pending litigation**

During the year ended 31 March 2007, the Company initiated legal proceedings against a third party (the "Landlord") in respect of an alleged breach of the tenancy agreement in failing to refund the deposit of HK\$1,790,000. Concurrently, the Landlord resisted the claim and counterclaimed against the Company on, including but not limited to, reinstatement work and rental losses. The Company was in the process of gathering further details of the Landlord's claim. The Company did not see any grounds for withholding the deposit and, accordingly, the directors of the Company took the view that no contingency arises for which a provision is required to be made nor no allowance is required to be made to the deposit included in the financial statements as at 31 March 2007.

### **32. RETIREMENT BENEFITS SCHEME**

The Group operates a Mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group in funds under the control of trustee. The Group contributes 5% of the relevant payroll costs to the Scheme up to a limit of HK\$1,000, which contribution is matched by employees.

The employees of the Company's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligations of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

### 33. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which, excluding those explained below, are limited liability companies, at 31 March 2007 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid share capital/ registered capital	Attributable proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Three Principles Computer Service Company Limited	Hong Kong	HK\$5,000,000	100%	—	Provision of computer consultancy services, and development and sales of computer software
天時北方軟件（北京） 有限公司 (Timeless Software Beijing) Limited	PRC for a term of 12 years commencing July 2000	RMB2,000,000	—	100%	Design, development and maintenance of computer software and systems as well as provision of computer consultancy services
天時軟件（廣州） 有限公司 (Timeless Software Guangzhou) Limited	PRC for a term of 10 years commencing January 1998	RMB10,000,000	—	100%	Design, development and maintenance of computer software and systems as well as provision of computer consultancy services
廣州市新信薈智信息 產業有限公司 (Talent Valley Company Limited)	PRC for a term of 30 years commencing November 2004	RMB16,000,000	—	88%	Provision of computer consultancy services

**33. PRINCIPAL SUBSIDIARIES** (continued)

Timeless Software (Beijing) Limited is a wholly foreign owned enterprise established in the PRC while Timeless Software (Guangzhou) Limited ("Timeless Guangzhou") and Talent Valley Company Limited are sino-foreign co-operative joint venture companies established in the PRC. Pursuant to the joint venture agreement, the PRC joint venture partner of Timeless Guangzhou has forfeited its economic interests in connection with the operation and management of Timeless Guangzhou in consideration for a contracted annual payment of RMB120,000. Accordingly, the Group is entitled to all the net results, risks and liabilities of Timeless Guangzhou throughout the entire co-operative joint venture period, after the payment of the pre-determined annual payment to the PRC joint venture partner. At the expiry of the co-operation period, the Group is entitled to all the remaining assets of Timeless Guangzhou.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

## Financial Summary

	Year ended 31 March				2007 HK\$'000
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	
<b>RESULTS</b>					
Turnover	27,970	9,357	3,441	3,638	<b>2,657</b>
(Loss) profit before taxation	(117,847)	(42,090)	(82,496)	2,144	<b>(15,533)</b>
Taxation	(191)	3,995	—	—	<b>—</b>
(Loss) profit for the year	(118,038)	(38,095)	(82,496)	2,144	<b>(15,533)</b>
Attributable to:					
Equity holders of the Company	(117,064)	(38,089)	(82,478)	2,355	<b>(14,724)</b>
Minority interests	(974)	(6)	(18)	(211)	<b>(809)</b>
	(118,038)	(38,095)	(82,496)	2,144	<b>(15,533)</b>
<b>As at 31 March</b>					
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	<b>2007 HK\$'000</b>
<b>ASSETS AND LIABILITIES</b>					
Total assets	281,478	257,270	190,257	159,525	<b>145,995</b>
Total liabilities	(40,706)	(45,236)	(45,530)	(6,659)	<b>(6,428)</b>
Net assets	240,772	212,034	144,727	152,866	<b>139,567</b>
Attributable to:					
Equity holders of the Company	238,406	209,674	137,940	146,101	<b>136,319</b>
Minority interests	2,366	2,360	6,787	6,765	<b>3,248</b>
	240,772	212,034	144,727	152,866	<b>139,567</b>