



交大銘泰軟件實業有限公司\*  
SJTU SUNWAY SOFTWARE INDUSTRY LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code : 8148



Annual Report

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## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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**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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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

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

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



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# CORPORATE INFORMATION

## DIRECTORS

### Executive Directors

- \* Mr. Sze Wai, Marco, *Chairman*
- Mr. He En Pei, *Chief Executive Officer*  
(resigned on 6 September 2006)
- \* Mr. Shang Guan Bu Yan
- \* Mr. Chen Si Gen
- Mr. Tan Shu Jiang
- \*\* Ms. Tinna Chan Yee
- \*\* Ms. Sana Bakhtiar Ahmed

- \* (resigned on 1 February 2007)
- \*\* (appointed on 1 February 2007)

### Independent non-executive Directors

- \* Mr. Wang Tian Ye
- \* Mr. Wang Bin
- \* Mr. Xu Shi Hong
- \*\* Mr. Chan Cheong Yee
- \*\* Mr. Ronald Garry Hopp
- \*\* Mr. Yip Tai Him

- \* (resigned on 27 March 2007)
- \*\* (appointed on 27 March 2007)

### COMPANY SECRETARY

- Mr. Ho Shu Pui, *CPA*  
(resigned on 1 January 2007)
- Mr. Lau King Tang, Vincent, *CPA*  
(appointed on 1 February 2007 and resigned on  
21 February 2007)
- Ms. Tse Suk Yee, Teresa, *CPA*  
(appointed on 27 February 2007)

### QUALIFIED ACCOUNTANT

- Mr. Ho Shu Pui, *CPA*  
(resigned on 1 January 2007)
- Mr. Lau King Tang, Vincent, *CPA*  
(appointed on 1 February 2007 and resigned on  
21 February 2007)
- Ms. Tse Suk Yee, Teresa, *CPA*  
(appointed on 27 February 2007)

## AUDIT COMMITTEE

- \* Mr. Wang Tian Ye
  - \* Mr. Wang Bin
  - \* Mr. Xu Shi Hong
  - \*\* Mr. Yip Tai Him, *Chairman*
  - \*\* Mr. Chan Cheong Yee
  - \*\* Mr. Ronald Garry Hopp
- \* (resigned on 27 March 2007)  
\*\* (appointed on 27 March 2007)

## REMUNERATION COMMITTEE

- \* Mr. Wang Tian Ye
  - \* Mr. Wang Bin
  - \* Mr. Xu Shi Hong
  - Mr. Sze Wai, Marco  
(resigned on 1 February 2007)
  - \*\* Mr. Chan Cheong Yee, *Chairman*
  - \*\* Mr. Yip Tai Him
  - \*\* Mr. Ronald Garry Hopp
- \* (resigned on 27 March 2007)  
\*\* (appointed on 27 March 2007)

## NOMINATION COMMITTEE

- \* Mr. Wang Tian Ye
  - \* Mr. Wang Bin
  - \* Mr. Xu Shi Hong
  - Mr. Sze Wai, Marco  
(resigned on 1 February 2007)
  - \*\* Mr. Ronald Garry Hopp, *Chairman*
  - \*\* Mr. Chan Cheong Yee
  - \*\* Mr. Yip Tai Him
- \* (resigned on 27 March 2007)  
\*\* (appointed on 27 March 2007)

**AUTHORISED REPRESENTATIVES**

Mr. Chu Chi Shing  
(resigned on 27 March 2006)  
Mr. Tan Shu Jiang  
(appointed on 27 March 2006)  
Ms. Tinna Chan Yee  
(appointed on 1 February 2007)  
Ms. Tse Suk Yee, Teresa, CPA  
(appointed on 27 February 2007)

**REGISTERED OFFICE**

Cricket Square  
Hutchins Drive, P.O. Box 2681  
Grand Cayman KT1-1111  
Cayman Islands

**HEAD OFFICE AND PRINCIPAL PLACE  
OF BUSINESS IN HONG KONG**

Room 2801, 28/F China Merchants Tower  
Shun Tak Centre  
168-200 Connaught Road Central  
Hong Kong

**COMPLIANCE OFFICER**

Mr. Chu Chi Shing  
(resigned on 27 March 2006)  
Mr. Tan Shu Jiang  
(appointed on 27 March 2006)  
Ms. Tinna Chan Yee  
(appointed on 1 February 2007)

**PRINCIPAL SHARE REGISTRAR  
AND TRANSFER OFFICE**

Bank of Bermuda (Cayman) Limited  
2nd Floor, Strathvale House  
North Church Street  
P.O. Box 513  
Grand Cayman KY1-1106  
Cayman Islands

**HONG KONG BRANCH SHARE  
REGISTRAR AND TRANSFER OFFICE**

Tengis Limited  
26/F Tesbury Centre  
28 Queen's Road East  
Hong Kong

**AUDITORS**

CCIF CPA Limited  
20/F Sunning Plaza  
10 Hysan Avenue  
Causeway Bay  
Hong Kong

**PRINCIPAL BANKERS**

The Hongkong and Shanghai Banking Corporation  
Limited

**STOCK CODE**

8148

## CHAIRMAN'S STATEMENT

Dear Shareholders

I am pleased to present the annual results of SJTU Sunway Software Industry Limited (the "Company") and its subsidiaries (the "Group") for the financial year ended 31 December 2006.

For the year under review, the Group recorded a decline in turnover as compared with the previous financial year. The drop in turnover was primarily the result of the growing competition in the information localisation business, which is the mainstream business of the Group, and the market conditions make further expansion a challenge to the Group.

Despite the aforesaid, the management has put stringent efforts to reduce the operating costs and upheld the policy of "screening out" of any unprofitable or under-performed projects in order to reduce expenses and losses of the Group. In addition, the Group has been proactively identifying opportunities beyond the information localisation business and reviewing its business strategy with a view to alleviating and improving the current financial status of the Group and to enhancing operational performance, and strengthening business foundation.

While recognising that we are working in a market with intense competition, we expect the years to come to be more challenging for the Group. In order to excel in this ever changing market, we have to enhance our competitiveness, improve our efficiency and response to market conditions. The management will closely monitor the market and modify the business operations, structures and strategies when necessary. I firmly believe that with the continued support from our shareholders and customers, and dedicated performance of our staff, we would brace to secure more business growth and achieve better returns for our investors and shareholders.

**Tinna Chan Yee**  
*Chairman*

Hong Kong, 3 July 2007

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

During the year under review, the Group is principally engaged in the information localisation business. In view of the significant decrease in translation works carried out by the Group due to severe market competition compared with the corresponding period last year, the Group has decided to rationalise its business by focusing on providing professional translation services to more established customers of larger scale. These customers usually adopt tendering procedure for new orders with great emphasis on pricing. However, we face our customers' demand for quality work, which often imposes difficulties in lowering costs. As a result, our business performance is undermined.

## PROSPECTS

On the back of the globalisation of various industries, the quicker penetration of multi-national companies into markets around the world and the rapid opening of the PRC market, an enormous translation market with great potential revenues is in place. With the continued growth of the PRC economy and more and more large-scale international events, such as the 2008 Beijing Olympic Games and Expo 2010 Shanghai to be staged in the PRC, we remain optimistic towards the future of our information localisation business.

With its expertise and resources in information localisation business accumulated over the years, coupled with its strength in technology research and development, the Group strives to capitalise on its competitive edges and to attain better results in information localisation business.

Meanwhile, the Group is in constant review of its business strategy and watch for other business opportunities with a view to expanding the business portfolio and profitability of the Group.

## FINANCIAL REVIEW

### Overall Review

The Group's operation in the sales of general software, custom-made solution and licensing reduced to quite a large extent that results the turnover dropping significantly compared with 2005. At the same time, the operating costs of the Group has decreased by approximately 47.3% compared with 2005. As a result, the Group's loss attributable to equity holders of the parent has decreased to approximately HK\$11.2 million for the year ended 31 December 2006, as compared to the loss attributable to shareholders of approximately HK\$38.4 million for last year.

### Revenue

For the year ended 31 December 2006, the total revenue of the Group was approximately HK\$0.7 million, representing approximately 81.0% decrease from that of approximately HK\$3.8 million generated in the year ended 31 December 2005. The decrease in revenue was mainly attributable to the downsizing of the business segments in the sales of general software business, licensing fee and custom-made solutions. The revenue of the Group's information localisation business, which was our core business during the year, amounted to approximately HK\$0.7 million, representing approximately 81.0% decrease from that of approximately HK\$3.8 million generated for the year ended 31 December 2005. The decrease was mainly attributable to severe competition in the industry.

## **FINANCIAL REVIEW (Continued)**

### **Gross Profit**

For the year ended 31 December 2006, the Group recorded gross profit of approximately HK\$0.2 million as compared to approximately HK\$1.1 million last year. Overall gross profit margin was approximately 23.2% this year as compared with approximately 31.1% last year.

### **Operating Costs**

For the year ended 31 December 2006, the Group's operating costs, which include administrative expenses, selling expenses and research and development costs, decreased by approximately 47.3% compared with that of the year 2005. Of the total operating costs, the administrative expenses have decreased by approximately 51.5% whereas selling expenses, research and development costs have decreased and increased by approximately 97.7% and 181.7% respectively. At the same time, the overall business results cannot improve correspondingly, that results in the Group recorded loss attributable to the equity holders of the parent to be approximately HK\$11.2 million as compared with approximately HK\$38.4 million for the corresponding period in 2005.

### *Financial Resources and Liquidity*

As at 31 December 2006, the Group had bank balances and cash of approximately HK\$0.2 million (2005: HK\$0.6 million). About approximately 99.1% (2005: 98.9%) of the total bank balances and cash were denominated in Renminbi ("RMB") with the remainder in Hong Kong dollars.

As at 31 December 2006, the outstanding bank loan and other loan of the Group amounted to approximately HK\$14 million (2005: HK\$13.2 million). The bank borrowings, denominated in RMB, are repayable within one year and bearing interest of 6.38% per annum.

### *Gearing Ratio*

As at 31 December 2006, the total assets of the Group were approximately HK\$23.6 million (2005: HK\$51.6 million) whereas the total liabilities were approximately HK\$22.8 million (2005: HK\$39.3 million). The gearing ratio of the Group, calculated as total liabilities over total assets, was approximately 96.6% (2005: 76.2%).

### *Foreign Exchange Exposure*

Since most of the income and expenses as well as assets and liabilities of the Group are denominated in RMB, the Directors consider the Group has no material foreign exchange exposure.



## **FINANCIAL REVIEW (Continued)**

### **Operating Costs (Continued)**

#### *Acquisition, Disposal and Significant Investment*

A conditional acquisition agreement dated 16 May 2006 was entered into between the Group and the vendor in relation to an acquisition of hotel management and leasing of hotel rooms business by the Group. Such acquisition constitutes a very substantial acquisition on the part of the Company under the GEM Listing Rules. However, the Company has been informed by the Stock Exchange that the acquisition would not be in full compliance with Rule 19.88 of the GEM Listing Rules and the waiver of the requirements of Rule 19.88 pursuant to Rule 19.89 of the GEM Listing Rules will not be granted in this case. In the event that no revised structure of the acquisition could be agreed upon, the parties will terminate the said conditional acquisition agreement as the conditions precedent could not be fulfilled, and no party thereto shall have any obligation or liability to the other party.

Other than disclosed above, for the year ended 31 December 2006, the Group did not have any significant investments.

### **Future Significant Investment Plans and Expected Capital Sources**

The details for estimated capital sources of future significant investment plans or expenditure scheme were respectively included in the section headed "Business Objective" of the prospectus of the Company dated 30 December 2003. Save as disclosed therein, there was no other future significant investment plan as at 31 December 2006.

### **Pledge of Assets and Contingent Liabilities**

As at 31 December 2006, the Group did not have any substantial pledge of assets and material contingent liabilities.

### **DIVIDEND**

The Board does not recommend the payment of a final dividend for the year ended 31 December 2006.

### **EMPLOYEE INFORMATION AND REMUNERATION POLICY**

As at 31 December 2006, the Group employed 6 staff (2005: 52 staff). The staff cost (including directors' remuneration) was approximately HK\$2.3 million for the year under review (2005: HK\$7.5 million). The Directors received remuneration of approximately HK\$1.1 million during the year ended 31 December 2006 (2005: HK\$2.7 million). Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employee.

The Group provides benefits in accordance with the relevant rules and regulations in the PRC and Hong Kong including contributions to state-managed retirement benefit scheme in the PRC and the Mandatory Provident Fund Scheme in Hong Kong. The Group also provides training to staff regularly.

# CORPORATE GOVERNANCE REPORT

Save as disclosed below, the Company had complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 of the GEM Listing Rules throughout the year under review. Below are the major corporate governance practices adopted by the Company with specific reference to the Code.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealing set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the "Required Standard") as the code of conduct regarding securities transactions by the Directors of the Company and has complied with the Required Standard. A copy of the Required Standard is sent to each Director of the Company upon appointment and a reminder is sent to each Director one month before the date of the board meetings to approve the Company's quarterly results, interim results and annual results that the Director cannot deal in the shares of the Company until after such results have been published. The Company had made specific enquiry of all its Directors. Each of the Directors of the Company confirmed his compliance with the Required Standard throughout the year ended 31 December 2006.

## THE BOARD OF DIRECTORS

Throughout the year under review, the board of the Company (the "Board") consisted of three independent non-executive Directors that was more than one-third of the Board. As at 31 December 2006, the Board comprised seven Directors, of which four were executive Directors. Members of the Board met regularly throughout the year to discuss the overall strategy as well as the operation and financial performance of the Group. There were total of 12 board meetings held during the year.

Attendance of individual Directors at Board meetings held during the year:

	Attendance	Percentage
<b>Executive Directors</b>		
Mr. Sze Wai, Marco ( <i>Chairman</i> )	11/12	92%
Mr. He En Pei ( <i>Chief Executive Officer</i> ) *	3/5	60%
Mr. Shang Guan Bu Yan	3/12	25%
Mr. Chen Si Gen	4/12	33%
Mr. Tan Shu Jiang	12/12	100%

\* Resigned on 6 September 2006

## Independent Non-executive Directors

Mr. Wang Tian Ye	6/12	50%
Mr. Wang Bin	6/12	50%
Mr. Xu Shi Hong	6/12	50%

**THE BOARD OF DIRECTORS (Continued)**

The Company's chairman is responsible for leadership and management of the Board, the overall corporate direction, corporate strategy and policy making of the Group. The Company's chief executive officer is responsible for overall management, business development, implementation of strategy and policy in achieving the overall commercial objectives. The roles of the chairman and the chief executive officer are distinctive. Also, there were no special relationship (including financial, business, family or other material/relevant relationships) among existing members of the Board and in particular, between the chairman and the chief executive officer for the period under review. During the year, the Company's chief executive officer, Mr. He En Pei, resigned. His duties were then assumed by Mr. Tan Shu Jiang, an executive Director of the Company.

**REMUNERATION COMMITTEE**

For the year ended 31 December 2006, the Remuneration Committee comprised four members, the majority of whom were independent non-executive Directors, and was chaired by Mr. Xu Shi Hong. The Remuneration Committee is aimed to review and determine the remuneration policy and packages of the executive directors and executives of the Group.

The Remuneration Committee is scheduled to meet at least once a year for the determination of the remuneration packages of directors and executives of the Group. In addition, the Committee also meets as and when required to consider remuneration related matters. 1 meeting was held during the financial year under review. The attendance of each member is set out as follows:

Attendance of individual members at Remuneration Committee meeting held during the year:

	<b>Attendance</b>	<b>Percentage</b>
<b>Independent Non-executive Directors</b>		
Mr. Xu Shi Hong ( <i>Chairman</i> )	1/1	100%
Mr. Wang Tian Ye	1/1	100%
Mr. Wang Bin	1/1	100%
<b>Executive Director</b>		
Mr. Sze Wai, Marco	1/1	100%

**REMUNERATION POLICY**

The remuneration policy 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.

## NOMINATION COMMITTEE

The Nomination Committee comprised four members, the majority of whom were independent non-executive Directors, and was chaired by Mr. Wang Bin. The Nomination Committee is responsible for nominating potential candidates for directorship, reviewing the nomination of directors and making recommendations to the Board on such appointments.

The Nomination Committee is scheduled to meet at least once a year for the review of the structure, size and composition of the Board. In addition, the Nomination Committee also meets as and when required to consider nomination related matters. 1 meeting was held during the financial year. The attendance of each member is set out as follows:

Attendance of individual members at Nomination Committee meeting held during the year:

	Attendance	Percentage
<b>Independent Non-executive Directors</b>		
Mr. Wang Bin ( <i>Chairman</i> )	1/1	100%
Mr. Wang Tian Ye	1/1	100%
Mr. Xu Shi Hong	1/1	100%
<b>Executive Director</b>		
Mr. Sze Wai, Marco	1/1	100%

## AUDIT COMMITTEE

Under its terms of reference which are aligned with the code provisions set out in the Code, the Audit Committee is required to evaluate the overall effectiveness of the internal control and risk management frameworks, to review the accounting principles and practices adopted by the Group and other financial reporting matters and ensure the completeness, accuracy and fairness of the financial statements, to monitor compliance with statutory and listing requirements and to oversee the relationship with the external auditors.

The Audit Committee reviews the quarterly, interim and annual reports before submission to the Board. The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the GEM Listing Rules and the legal requirements in the review of the Company's quarterly, interim and annual reports.

Senior representatives of the external auditors, executive Directors and senior executives are invited to attend the meetings, if required. Each member of the Audit Committee members had unrestricted access to the Group's external auditors and the management.

The Audit Committee met 4 times during the year and the attendance of each member is set out as follows:

	<b>Attendance</b>	<b>Percentage</b>
<b>Independent Non-executive Directors</b>		
Mr. Wang Tian Ye ( <i>Chairman</i> )	4/4	100%
Mr. Wang Bin	4/4	100%
Mr. Xu Shi Hong	4/4	100%

## AUDITORS' REMUNERATION

The Company reviews the appointment of external auditors on an annual basis including a review of the audit scope and approval of the audit fee. During the year, the fee payable to the Company's external auditors for the annual audit amounted to HK\$300,000 and no fee has been paid for non-audit related activities.

## **INTERNAL CONTROL AND RISK MANAGEMENT**

The Board is responsible for the effectiveness of the Group's internal control systems. The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed, and by their nature can only provide reasonable, but not absolute, assurance against misstatement or loss.

## **INVESTOR RELATIONS**

The Company uses two-way communication channels to account to shareholders and investors for the performance of the Company. All the shareholders have 21 clear days' notice of annual general meeting at which Directors are available to answer questions on the business. Extensive information about the Group's activities is provided in its annual report and accounts, interim reports and quarterly reports which are sent to shareholders and investors. The Company's announcements, press releases and publications are publicised and are also available on the GEM website.

In order to provide effective disclosure to shareholders and investors and to ensure they all receive equal access to the same information at the same time, information considered to be of a price sensitive nature is released by way of formal public announcement as required by the GEM Listing Rules.

## DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS

#### Executive Directors

**Mr. SZE Wai, Marco (史偉)**, aged 41, was the chairman of the Group until 1 February 2007. In the past 16 years, Mr. Sze has been actively involved in the investment and management of companies involving manufacturing, property development and investment, transportation, trading and information technology. Mr. Sze is the chairman of FinTronics Holdings Company Limited, previously known as Start Technology Company Limited, which is listed in the Main Board of the Stock Exchange. Mr. Sze joined the Group in September 2001 and resigned from the position as an executive Director of the Company and chairman of the Group on 1 February 2007.

**Ms. Tinna CHAN YEE (余陳天娜)**, aged 38, was appointed as an executive Director and chairman of the Group on 1 February 2007. She did not hold any directorship in any listed companies in the last 3 years before joining the Company. She holds an accounting diploma, has approximately 5 years of experience in property development business and approximately 10 years of experience in life insurance underwriting. Before that, she undertook duties in marketing, accounting and management for her family jewelry business.

**Mr. TAN Shu Jiang (譚曙江)**, aged 38, joined the Group in November 2005 as an executive Director. He is responsible for formulating of the Group's business strategies. Mr. Tan graduated from Shanghai International Studies University and he has over 10 years of experience in the sales and marketing, technical and general management in the information technology business.

**Mr. HE En Pei (何恩培)**, aged 37, was an executive Director and the chief executive officer of the Group until 6 September 2006. He was responsible for strategic planning and supervision of the overall operation of the Group. Mr. He graduated from Huazhong University of Science & Technology with a master degree in Electronic Materials and Components in June 1995. Mr. He has been a practitioner in the field of information technology and has gained more than five years of experience in corporate management. Mr. He served as the chief executive officer of Advanced Technology (Zhuhai) Co. Ltd. for one year supervising the testing, research and development and production departments. He was also the vice-president of Beijing Hong Da Electronic and Technology Centre from September 1996 to September 1997. Mr. He was nominated as the Year 99 PRC Top Ten IT Icons. The name and experience of Mr. He have been written into "The History of One Hundred Outstanding Entrepreneurs in China — 2001". Mr. He joined the Group in August 1998 and resigned on 6 September 2006.

**Mr. SHANG GUAN Bu Yan (上官步燕)**, aged 44, joined the Group in early 2002 and was an executive Director until 1 February 2007. He was responsible for formulating the marketing strategies of the Group. Mr. Shang Guan graduated from National University of Defense Technology with a master degree in Science in December 1991. He has over 10-years of experience in the computer industry in the PRC. Mr. Shang Guan was formerly a member of the senior management of Start Technology Company Limited and was the managing director of Fujian Star Systems Integration Co., Ltd. before joining Start Technology. Mr. Shang Guan resigned from his position in the Company on 1 February 2007.

## **DIRECTORS (Continued)**

### **Executive Directors (Continued)**

**Mr. CHEN Si Gen (陳思根)**, aged 41, was an executive Director of the Group until 1 February 2007. He was responsible for the business development of the Group. Mr. Chen graduated from Shanghai Jiao Tong University with a master degree in Materials Science and Engineering in March 1994. Mr. Chen is experienced in project investment and management, corporate planning and project finance. Mr. Chen was also a director and general manager of SJTU Venture Capital Co. Ltd. Mr. Chen joined the Group in September 2002 and resigned on 1 February 2007.

**Ms. Sana Bakhtiar AHMED**, aged 30, was appointed as an executive Director on 1 February 2007. She did not hold any directorship in any listed companies in the last 3 years before joining the Company. She holds a bachelor of commerce degree and has approximately 6 years of experience in property development business as a director.

### **Independent Non-executive Directors**

**Mr. WANG Tian Ye (王天也)**, aged 48, was an independent non-executive Director until 27 March 2007. Mr. Wang graduated from Macquarie University, Australia with a master degree in Applied Finance and was a senior Associate of Australian Institute of Banking and Finance in April 1996. Mr. Wang had served the Bank of China, Beijing Branch, for more than ten years and was once the deputy general manager of the Sydney Branch. He has extensive experience in the banking industry and investment in the PRC and Australia. Mr. Wang was appointed by the Group in November 2003 and tendered his resignation on 27 March 2007.

**Mr. WANG Bin (王斌)**, aged 38, was an independent non-executive Director until 27 March 2007. Mr. Wang graduated from Nakai University with a bachelor degree in philosophy. He has over 10 years of experience in security consultancy and brokerage business. Mr. Wang is the vice president of China Chenxin Financial Consulting Co. Ltd. in the PRC. He was appointed by the Group in June 2005 and resigned on 27 March 2007.

**Mr. XU Shi Hong (徐時弘)**, aged 44, was an independent non-executive Director until 27 March 2007. Mr. Xu graduated from Beijing College of Economics (now known as Capital University of Economics and Business). He has over 20 years of experience in financial management and currently holds a financial management position in China Travel Services Head Office in the PRC. Mr. Xu was appointed by the Group in June 2005 and resigned on 27 March 2007.



## DIRECTORS (Continued)

### Independent Non-executive Directors (Continued)

**Mr. CHAN Cheong Yee (陳昌義)**, aged 43, was appointed as an independent non-executive Director on 27 March 2007. He is currently the responsible officer of China Everbright Securities (HK) Limited, China Everbright Capital Limited and Everbright Wisdom Fund Management Limited. He is also an executive director of Sino Technology Investments Limited which is a listed investment company under Chapter 21 of the Rules (the "Listing Rules") Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited. Mr. Chan was an executive director of Apex Capital Limited (formerly known as Haywood Investment Limited), which is also a listed investment company under Chapter 21 of the Listing Rules, from June 2002 to May 2003. Mr. Chan was an independent non-executive director of Cosmopolitan International Holdings Limited, another listed company in Hong Kong, from September 2004 to December 2006. Mr. Chan has been in the financial and investment business for almost 20 years and directly involved in identifying investment opportunities, conducting due diligence, performing valuation, monitoring performance of investment portfolios and providing investment and divestment recommendations. Mr. Chan holds a bachelor's degree of science and majoring in finance. Mr. Chan is a registered and licensed person under Schedule 5 of the Securities and Futures Ordinance to carry out regulated activities including dealing of securities, advising on securities, dealing in futures contracts and undertaking asset management.

**Mr. Ronald Garry HOPP**, aged 68, was appointed as an independent non-executive Director on 27 March 2007. He is an academic staff of the Faculty of Law at the University of Alberta under contract on a half-time basis. He graduated from the University of Alberta with bachelor degrees of Education and Laws. Mr. Hopp articulated for the law firm of Wood Moir Hyde & Ross in the City of Edmonton, was admitted to the bar in 1972, and thereafter practiced law on a full-time basis for approximately 2 years. Mr. Hopp became an academic staff of the Faculty of Law at the University of Alberta and taught in this capacity for approximately 30 years until his mandatory retirement in 2004.

**Mr. YIP Tai Him (葉棣謙)**, aged 37, was appointed as an independent non-executive Director on 27 March 2007. He is a practicing accountant in Hong Kong and has about 15 years of experience in auditing, accounting and corporate finance. He is a member of the Institute of Chartered Accountants in England and Wales, Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants. Mr. Yip is currently an independent non-executive director of Wing Lee Holdings Limited and China Cyber Port (International) Company Limited, which are listed on the Main Board and the Growth Enterprise Market of the Stock Exchange respectively.

## MANAGEMENT

### Senior Management

**Ms. TSE Suk Yee, Teresa (謝淑儀)** is the financial controller of the Group. Ms. Tse is a fellow member of the Association of Chartered Certified Accountants and member of the Hong Kong Institute of Certified Public Accountants. She joined the Group on 27 February 2007.

### Company Secretary

**Ms. TSE Suk Yee, Teresa (謝淑儀)** is a secretary of the Company. Her background and qualifications are set out in the above.

## REPORT OF THE DIRECTORS

The Directors hereby present their annual report together with the audited financial statements of the Group for the year ended 31 December 2006.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding while the Group is principally engaged in the information localisation business during the year, including the provision of translation services using the translation software developed by the Group.

The principal activities of the principal subsidiaries are set out in note 15 to the financial statements.

### MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year under review is as follows:

	Percentage of the	
	Sales	Purchases
The largest customer	37.4%	
Five largest customers in aggregate	92.9%	
The largest supplier		0%
Five largest suppliers in aggregate		0%

At no time during the year did the Directors, their associates or any shareholder of the Company (who to the knowledge of the Directors owns more than 5% of the Company's issued share capital) have any interest in these major customers and suppliers.

### FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2006 and the state of the Group's affairs as at that date are set out in the financial statements on pages 28 to 78.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2006.

### RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on the financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company's reserves available for distribution calculated in accordance with the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands amounted to approximately HK\$2.9 million (2005: HK\$2.9 million). These reserves may be distributed provided that immediately following the date on which the distribution is proposed to be made, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

## PROPERTY, PLANT AND EQUIPMENT

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

## SHARE CAPITAL

Details of the movements in the share capital of the Company during the financial year are set out in note 30 on the financial statements.

## DIRECTORS

The Directors during the financial year under review and at the date of this report are:

### Executive Directors

Mr. Sze Wai, Marco, <i>Chairman</i>	(resigned on 1 February 2007)
Mr. He En Pei, <i>Chief Executive Officer</i>	(resigned on 6 September 2006)
Mr. Tan Shu Jiang	
Mr. Shang Guan Bu Yan	(resigned on 1 February 2007)
Mr. Chen Si Gen	(resigned on 1 February 2007)
Ms. Tinna Chan Yee	(appointed on 1 February 2007)
Ms. Sana Bakhtiar Ahmed	(appointed on 1 February 2007)

### Independent Non-executive Directors

Mr. Wang Tian Ye	(resigned on 27 March 2007)
Mr. Wang Bin	(resigned on 27 March 2007)
Mr. Xu Shi Hong	(resigned on 27 March 2007)
Mr. Chan Cheong Yee	(appointed on 27 March 2007)
Mr. Ronald Garry Hopp	(appointed on 27 March 2007)
Mr. Yip Tai Him	(appointed on 27 March 2007)

In accordance with article 108 (A) of the Company's articles of association, one-third of the Directors for the time being shall retire at each annual general meeting from office by rotation. Further, according to article 112 of the articles of association of the Company, any director appointed by the Directors to fill a casual vacancy in the Company under that article shall hold office only until the next following annual general meeting and shall then be eligible for re-election at the meeting,

### **DIRECTORS (Continued)**

Accordingly, in accordance with articles 108(A) and 112 of the Company's articles of association, Ms. Tinna Chan Yee, Ms. Sana Bakhtiar Ahmed, Mr. Tan Shu Jiang, Mr. Chan Cheong Yee, Mr. Ronald Garry Hopp and Mr. Yip Tai Him will retire from the Board at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

### **DIRECTORS' CONTRACTS**

Except for Ms. Tinna Chan Yee and Ms. Sana Bakhtiar Ahmed who have not entered into any service contract with the Company and who are not appointed for a fixed term, each of the other executive Directors and independent non-executive Directors has entered into a service contract with the Company for an initial term of two to three years, and is subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the Company's articles of association and the GEM Listing Rules.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

### **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES**

As at 31 December 2006, other than the share options disclosed as below, neither any of the Directors nor the chief executive had interests and or short positions in the shares of the Company ("Shares"), underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules.

### **SHARE OPTIONS**

<b>Name of Director</b>	<b>Number of options held</b>
Mr. Sze Wai, Marco	1,500,000
Mr. Shang Guan Bu Yan	1,000,000
Mr. Chen Si Gen	1,000,000
Mr. Wang Tian Ye	200,000
	<hr/>
	3,700,000

## SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTEREST

### Substantial Shareholders

So far as is known to the Directors, as at 31 December 2006, the following persons, other than a director or chief executive of the Company, had an interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO and who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Name	Capacity	Number of Shares (Note 1)	Approximate percentage of shareholding
S&D Holdings Group Limited	Beneficial owner (Note 2)	64,355,828 (L)	32.18%
Shanghai Jiao Tong University	Interest of a controlled corporation (Note 3)	22,528,484 (L)	11.26%
Shanghai Jiaoda Industrial Investment Management (Group) Limited ("Jiaoda Industrial Group")	Interest of a controlled corporation (Note 3)	22,528,484 (L)	11.26%
Simplex Technology Investment (Hong Kong) Co. Limited ("Simplex")	Beneficial owner	22,528,484 (L)	11.26%
HongKong Sunway Technology Development Limited ("HK Sunway")	Beneficial owner	20,157,157(L)	10.08%

Notes:

- The letter "L" denotes the entity's long position in the Shares.
- The entire share capital of S&D Holdings Group Limited is beneficially owned by Ms. Wen Chen as to 4.17%, Ms. Tinna Chan Yee as to 14.16%, Mr. David Cigar Yee as to 14.17%, Mr. Syed Waliuddin Ahmed as to 14.17%, Ms. Sana Bakhtiar Ahmed as to 14.17%, Mr. Frank Wai Kah Yee as to 15% and Mr. Stephen Yee as to 24.16% respectively.
- The interests in the Shares are held through Simplex, the entire issued share capital of which is beneficially owned by Jiaoda Industrial Group. The registered capital of Jiaoda Industrial Group is owned as to 96.735% by Shanghai Jiao Tong University and 3.265% by Shanghai Jiaoda Enterprise Management Centre (上海交大企業管理中心), an entity wholly owned by Shanghai Jiao Tong University.

The Company has not been notified of other interests or short positions of any other person (other than the Directors and chief executives and the substantial shareholders of the Company) in the Shares or underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO as at 31 December 2006.

## SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") which was adopted on 25 November 2003 whereby the Directors of the Company may at their discretion invite any employees, directors, suppliers, customers, advisers, consultants, joint venture partners, and any shareholders of any members of the Group or any invested entities or any holders of any securities issued by any member of the Group or any invested entities, to take up options to subscribe for Shares. The Scheme became effective upon the listing of the Company's shares on the GEM of the Stock Exchange on 9 January 2004.

Date of grant	Exercise Period	Exercise price per share (HK\$)	Outstanding as at 1.1.2006	Number of options			Outstanding as at 31.12.2006
				Granted during the year	Exercised during the year	Lapsed during the year	
<b>Directors</b>							
17.01.2005	17.1.2005–16.1.2015	0.45	1,770,000	—	—	(1,770,000)	—
10.10.2005	10.10.2005–29.10.2015	0.14	4,700,000	—	—	(1,000,000)	3,700,000
			6,470,000	—	—	(2,770,000)	3,700,000
<b>Employees, consultants and others</b>							
17.01.2005	17.1.2005–16.1.2015	0.45	3,000,000	—	—	(1,000,000)	2,000,000
10.10.2005	10.10.2005–29.10.2015	0.14	5,600,000	—	—	(3,300,000)	2,300,000
			8,600,000	—	—	(4,300,000)	4,300,000

## DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, any of its subsidiaries or fellow subsidiaries was a party, 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 under review.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association although there are no restrictions against such rights under the law of the Cayman Islands.

## BANK LOAN

Particulars of bank loan of the Group as at 31 December 2006 are set out in note 25 on the financial statements.

## **FIVE YEARS FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on pages 79 and 80 of this annual report.

## **RETIREMENT SCHEMES**

Particulars of the retirement schemes of the Group are set out in note 27 on the financial statements.

## **COMPETING INTERESTS**

None of the Directors and management shareholders of the Company (within the meaning of the GEM Listing Rules) has an interest in any business which competes or may compete with the business in which the Group is engaged.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasis a quality board, sound internal control, transparency and accountability to all shareholders. The Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules (the "Code") throughout the year ended 31 December 2006. Details of the Code adopted by the Company are set out in the section of Corporate Governance Report.

## **AUDIT COMMITTEE**

The Company has established an audit committee with written terms of reference. The primary duties of the audit committee are to review, in draft form, the Company's annual report and accounts, half-year report, quarterly report and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the financial reporting process and internal controls of the Group. The audit committee comprises three independent non-executive Directors.

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

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Board still considers each of the independent non-executive Directors to be independent.

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

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

#### **SUFFICIENCY OF PUBLIC FLOAT**

The Company has maintained a sufficient public float throughout the year ended 31 December 2006.

Subsequent to the balance sheet date, the Company failed to maintain a minimum prescribed percentage of 25% of the issued share capital to be in the hand of public ("the Public Float"). The Board is considering means to restore the Public Float. Further announcement in this regard will be made by the Company as and when appropriate.

#### **CONNECTED TRANSACTION**

During the year ended 31 December 2006, there were no connected transactions which are required to be disclosed in accordance with announcement and reporting requirements under the GEM Listing Rules.

#### **AUDITORS**

ShineWing (HK) CPA Limited ("ShineWing") were auditors of the Company for the year ended 31 December 2005 and until 12 February 2007. CCIF CPA Limited ("CCIF") was appointed as auditors of the Company by the Board to fill the casual vacancy arising from the resignation of ShineWing on 6 March 2007.

The financial statements have been audited by CCIF, who will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

#### **SUBSEQUENT EVENTS**

Details of the significant subsequent events have been set out in the announcements published by the Company.

On behalf of the Board

**Tinna Chan Yee**

*Chairman*

Hong Kong, 3 July 2007



# INDEPENDENT AUDITOR'S REPORT



**CCIF**

**CCIF CPA LIMITED**

20/F Sunning Plaza  
10 Hysan Avenue  
Causeway Bay Hong Kong

**TO THE SHAREHOLDERS OF  
SJTU SUNWAY SOFTWARE INDUSTRY LIMITED**  
(incorporated in the Cayman Islands with limited liability)

We were engaged to audit the consolidated financial statements of SJTU Sunway Software Industry Limited (the "Company") set out on pages 28 to 78, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The consolidated financial statements as of 31 December 2005, were audited by another auditor (the "predecessor auditor") whose report dated 27 March 2006 ("Previous Auditor's Report"), expressed a disclaimer of opinion due to the matters set out in points (1) to (4) under the basis for disclaimer of opinion section.

**DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

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

**AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matters described in the basis for disclaimer of opinion section, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

## **BASIS FOR DISCLAIMER OF OPINION**

### **1. Scope limitation — opening balance of investment funds**

As explained in the Previous Auditor's Report, the predecessor auditor was unable to obtain sufficient reliable evidence to satisfy themselves as to the Group's ownership of investment funds and whether impairment of investment funds as at 31 December 2005 was necessary.

Any adjustment that might have been found necessary in respect of the above as at 31 December 2005 would have had a consequential impact on the opening balance of net assets of the Group as at 1 January 2006, its loss for the year ended 31 December 2006, and the related disclosure in the financial statements.

### **2. Scope limitation — carrying amounts and recoverability of deposits for acquisition of subsidiaries**

As explained in the Previous Auditor's Report, the predecessor auditor was unable to obtain sufficient reliable evidence to satisfy themselves as to the ownership and recoverability of deposits of approximately HK\$12,710,000 for acquisition of subsidiaries as at 31 December 2005.

As detailed in noted 18 to the consolidated financial statements, the deposits for acquisition of subsidiaries referred to above are still outstanding at 31 December 2006 and the Group also paid another deposit of HK\$10,000,000 for the proposed acquisition of First Preview Limited and its subsidiaries during the year ended 31 December 2006. However, there were no documentary evidence to support whether the independent third parties have ability and commitment to complete the transactions and whether the deposits will be recovered, and in consequence whether the carrying amounts of deposits for acquisition of subsidiaries as at 31 December 2006 are fairly stated.

### **3. Scope limitation — interest in an associate**

As explained in the Previous Auditor's Report, the predecessor auditor was unable to obtain sufficient reliable evidence to satisfy themselves as to whether the impairment of goodwill arose from the acquisition of the associate as at 31 December 2005 was necessary.

As detailed in note 16 to the consolidated financial statements, the Group cannot access to the accounting records and management accounts of the associate for the year ended 31 December 2006, and consequently the Group could not arrange for the audit of the associate's management accounts for the year ended 31 December 2006. Because of this, the interest in the associate has been accounted for in the consolidated financial statements under the equity method using the financial information of the associate as at 31 December 2005, this is not in accordance with Hong Kong Accounting Standard ("HKAS") No. 28 "Investments in Associates" issued by the HKICPA. As no accounts of the associate for the year ended 31 December 2006 are yet available we are unable to estimate the financial effect on these consolidated financial statements of the departure from HKAS 28.

The directors have considered that the recoverability of interest in the associate is uncertain and it is prudent to make a full impairment loss of approximately HK\$4,849,000 against the carrying amount of interest in the associate. However, there was no sufficient reliable evidence to support the impairment loss on the interest in the associate. There were no practical alternative audit procedures that we could perform to determine the appropriateness of the impairment loss. Any excess of the impairment loss would have a consequential effect on the Group's net assets as at 31 December 2006 and its loss for the year then ended.

**4. Scope limitation — impairment of goodwill**

As explained in the Previous Auditor's Report, the predecessor auditor was unable to obtain sufficient reliable evidence to satisfy themselves as to whether the impairment of goodwill arose from the acquisition of a subsidiary as at 31 December 2005 was necessary.

As detailed in note 17 to the consolidated financial statements, included in consolidated balance sheet as at 31 December 2006 is a goodwill against which full impairment loss of approximately HK9,697,000 was made during the current year. However, there were no satisfactory audit procedures that we could assess the impairment loss so as to determine the appropriateness of the impairment loss. Any excess of the impairment loss would have a consequential effect on the Group's net assets as at 31 December 2006 and its loss for the year then ended.

**5. Scope limitation — carrying amount and impairment of property, plant and equipment**

As detailed in notes 2(a) and 13 to the consolidated financial statements, the Company's directors are unable to obtain a fixed assets register and the relevant assets after the reconstitution of the board. An impairment assessment has been performed by the Company's directors to determine the recoverable amounts of property, plant and equipment. Based on their assessment, an impairment loss of approximately HK\$1,468,000 has been made and charged to the consolidated income statement for the year ended 31 December 2006. In the absence of sufficient reliable evidence available to us, we were unable to carry out adequate audit procedures to satisfy ourselves that this impairment loss and other disclosures in the consolidated balance sheet, the consolidated income statement, the consolidated cash flow statement and the notes thereon relating to the property, plant and equipment are fairly stated.

**6. Scope limitation — trade and other receivables**

As at 31 December 2006, included in the consolidated balance sheet are trade and other receivables of approximately HK\$747,000, which was stated after write-off of trade and other receivables of approximately HK\$331,000 and impairment loss on trade and other receivables of approximately HK\$519,000 that were charged to the consolidated income statement for the year ended 31 December 2006. As detailed in note 2(a) to the consolidated financial statements and due to the lack of sufficient reliable evidence, we have not been able to perform the audit procedures we considered necessary to satisfy ourselves as to whether the write-off of and impairment loss on trade and other receivables for the year ended 31 December 2006, and in consequence the carrying amount of trade and other receivables as at 31 December 2006 are fairly stated.

**7. Scope limitation — cash and cash equivalents**

As at 31 December 2006, included in the consolidated balance sheet are cash and cash equivalents of approximately HK\$153,000. As detailed in note 2(a) to the consolidated financial statements and due to the lack of bank confirmations and other sufficient reliable evidence, we have not been able to perform the audit procedures we considered necessary to satisfy ourselves as to whether these cash and cash equivalents as at 31 December 2006 are fairly stated.

**8. Scope limitation — trade and other payables and other loan payable**

As at 31 December 2006, included in the consolidated balance sheet are trade and other payables of approximately HK\$4,235,000 and other loan payable of approximately HK\$436,000. As detailed in note 2(a) to the consolidated financial statements and due to the lack of sufficient reliable evidence, we have not been able to perform the audit procedures we considered necessary to satisfy ourselves as to whether the carrying amounts of trade and other payables and other loan payable as at 31 December 2006 are fairly stated.

**9. Scope limitation — amounts due to former directors and directors' remuneration**

As explained in note 2(a), the present directors have lost contact with certain former directors. We cannot obtain direct confirmations from these former directors in respect of the amounts of approximately HK\$1,338,000 due to certain former directors and their remuneration of approximately HK\$776,000, there were no practical alternative audit procedures that we could perform to support whether the amount of approximately HK\$1,338,000 due to certain former directors and their remuneration of approximately HK\$776,000 are fairly stated.

**10. Scope limitation — minority interests**

The underlying books and records of certain subsidiaries have not been fully retained, as explained in note 2(a) to the consolidated financial statements, and due to the incomplete books and records of these subsidiaries made available to us, we were unable to carry out adequate audit procedures to satisfy ourselves that minority interests relating to these subsidiaries in the consolidated balance sheet, the consolidated income statement and notes thereon are fairly stated.

**11. Scope limitation — carrying amount of interests in subsidiaries and amounts due from subsidiaries**

As at 31 December 2006, included in the balance sheet are interests in subsidiaries of approximately HK\$1,000, stated net of an impairment loss of HK\$13,764,000, and amounts due from subsidiaries of HK\$11,175,000, stated net of an impairment loss of HK\$20,500,000. The impairment losses of approximately HK\$13,764,000 and HK\$20,500,000 on interests in subsidiaries and amounts due from subsidiaries, respectively, were charged to the income statement for the year ended 31 December 2006. Due to the scope limitations in respect of points (2) to (9) above, we have not been able to satisfy ourselves as to whether the impairment losses determined by the Company's directors against the carrying amounts of such interests in subsidiaries and amounts due from subsidiaries for the year ended 31 December 2006, and in consequence the net carrying amounts of interests in subsidiaries and amounts due from subsidiaries as at 31 December 2006 in the balance sheet and notes thereon are fairly stated.

**12. Material uncertainties relating to going concern**

As explained in note 2(b) to the consolidated financial statements, which indicates that the Group incurred a consolidated net loss attributable to equity holders of the Company of approximately HK\$11,248,000 for the year ended 31 December 2006 and had a consolidated net current liabilities of approximately HK\$21,877,000 as at 31 December 2006, the consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the successful outcome of the Group's current negotiations with its banker and prospective investors to secure continual financial support and obtain new working capital in order for the Group to meet its financial obligation as they fall due and to finance its future working capital and financial requirements. The consolidated financial statements do not include any adjustments that would result from a failure to obtain such support and working capital. We consider that appropriate disclosures have been made. However, the uncertainties surrounding the outcome of these negotiations raise significant doubt about the Group's ability to continue as a going concern.

We were unable to carry out alternative audit procedures to satisfy ourselves as to the matters set out in points (1) to (12) above.

Any adjustment that might have been found to be necessary in respect of the matters set out in points (1) to (12) above would have a consequential effect on the financial positions of the Group and the Company as at 31 December 2006, the Group's loss and cash flows for the year then ended and the related disclosures in the financial statements.

**DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY FINANCIAL STATEMENTS**

Because of the significance of the matters described in the basis for disclaimer of opinion section, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2006 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**CCIF CPA Limited**

*Certified Public Accountants*  
Hong Kong, 3 July 2007

**Yau Hok Hung**

Practising Certificate Number P04911

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
<b>Turnover</b>	4	<b>715</b>	3,764
<b>Cost of sales</b>		<b>(549)</b>	(2,592)
<b>Gross profit</b>		<b>166</b>	1,172
Other revenue	5	<b>6</b>	146
Selling and distribution expenses		<b>(110)</b>	(4,824)
Research and development costs		<b>(4,502)</b>	(1,598)
General and administrative expenses		<b>(14,300)</b>	(29,467)
<b>Loss from operations</b>		<b>(18,740)</b>	(34,571)
Finance costs		<b>(1,483)</b>	(1,125)
Waiver of amount due to a former shareholder		<b>23,803</b>	—
Impairment loss on goodwill		<b>(9,697)</b>	—
Impairment loss on interest in an associate		<b>(4,849)</b>	—
Share of losses of associates		—	(659)
Loss on disposal of an associate		—	(3,098)
<b>Loss before taxation</b>	6	<b>(10,966)</b>	(39,453)
Income tax	7(a)	—	(6)
<b>Loss for the year</b>		<b>(10,966)</b>	(39,459)
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>(11,248)</b>	(38,372)
Minority interests		<b>282</b>	(1,087)
<b>Loss for the year</b>		<b>(10,966)</b>	(39,459)
<b>Loss per share</b>	11		
<b>Basic</b>		<b>(5.62) cents</b>	(19.19) cents
<b>Diluted</b>		<b>N/A</b>	N/A

The notes on pages 34 to 78 form part of these financial statements.

# CONSOLIDATED BALANCE SHEET

As at 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	13	—	1,614
Intangible assets	14	—	4,247
Interest in an associate	16	—	4,849
Goodwill	17	—	9,697
Deposits for acquisition of subsidiaries	18	<b>22,710</b>	12,710
		<b>22,710</b>	33,117
<b>Current assets</b>			
Trade and other receivables	19	<b>747</b>	1,542
Investment funds	20	—	16,427
Loans to minority shareholders	21	—	—
Cash and cash equivalents		<b>164</b>	561
		<b>911</b>	18,530
<b>Current liabilities</b>			
Trade and other payables	22	<b>6,972</b>	6,138
Amount due to a former shareholder	23	—	18,217
Amounts due to former directors	24	<b>1,370</b>	1,322
Amount due to a director	24	<b>10</b>	—
Bank loan, unsecured	25	<b>14,000</b>	13,208
Other loan payable, unsecured	26	<b>436</b>	436
		<b>22,788</b>	39,321
<b>Net current liabilities</b>		<b>(21,877)</b>	(20,791)
<b>NET ASSETS</b>		<b>833</b>	12,326
<b>CAPITAL AND RESERVES</b>			
Share capital	30	<b>2,000</b>	2,000
Reserves	30	<b>(2,472)</b>	9,326
<b>Total equity attributable to equity shareholders of the Company</b>		<b>(472)</b>	11,326
<b>Minority interests</b>		<b>1,305</b>	1,000
<b>TOTAL EQUITY</b>		<b>833</b>	12,326

Approved and authorised for issue by the board of directors on 3 July 2007.

**Tinna Chan Yee**  
Director

**Tan Shu Jiang**  
Director

The notes on pages 34 to 78 form part of these financial statements.

## BALANCE SHEET

As at 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
<b>Non-current assets</b>			
Investments in subsidiaries	15	1	13,757
<b>Current assets</b>			
Trade and other receivables	19	11,239	25,393
Cash and cash equivalents		—	2
		<b>11,239</b>	25,395
<b>Current liabilities</b>			
Trade and other payables	22	9,229	4,040
Amount due to a former shareholder	23	—	12,760
Amounts due to former directors	24	1,370	1,322
Amount due to a director	24	10	—
		<b>10,609</b>	18,122
		<b>630</b>	7,273
<b>NET ASSETS</b>			
		<b>631</b>	21,030
<b>CAPITAL AND RESERVES</b>			
Share capital	30	2,000	2,000
Reserves	30	(1,369)	19,030
<b>TOTAL EQUITY</b>			
		<b>631</b>	21,030

Approved and authorised for issue by the board of directors on 3 July 2007.

**Tinna Chan Yee**  
Director

**Tan Shu Jiang**  
Director

The notes on pages 34 to 78 form part of these financial statements.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As at 31 December 2006

	2006 HK\$'000	2005 HK\$'000
<b>Total equity at 1 January</b>	<b>12,326</b>	48,503
<b>Net loss recognised directly in equity:</b>		
Exchange differences on translation of financial statement of overseas subsidiaries	(527)	—
<b>Loss for the year</b>	<b>(10,966)</b>	(39,459)
<b>Movement in equity arising from capital transactions:</b>		
Equity settled share-based transactions	—	3,282
<b>Total equity at 31 December</b>	<b>833</b>	12,326

The notes on pages 34 to 78 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
<b>OPERATING ACTIVITIES</b>			
Loss before taxation		<b>(10,966)</b>	(39,453)
Adjustments for:			
Amortisation of intangible assets		<b>1,329</b>	1,160
Impairment loss on intangible assets		<b>3,173</b>	438
Depreciation of property, plant and equipment		<b>242</b>	1,231
Impairment loss on property, plant and equipment		<b>1,468</b>	—
Loss on investment funds		<b>6,411</b>	—
Loss on disposal of property, plant and equipment		—	47
Finance costs		<b>1,483</b>	1,125
Interest income		<b>(1)</b>	(82)
Equity-settled share-based payment expenses		—	3,282
Impairment loss for trade and other receivables		<b>519</b>	7,446
Waiver of amount due to a former shareholder		<b>(23,803)</b>	—
Impairment loss on goodwill		<b>9,697</b>	—
Impairment loss on interest in an associate		<b>4,849</b>	—
Write-off of trade and other receivables		<b>331</b>	—
Impairment loss on inventories		—	2,636
Write-off of property, plant and equipment		—	1,906
Write-off of deposit for acquisition of property, plant and equipment (included in other receivables)		—	3,774
Share of losses of associates		—	659
Loss on disposal of an associate		—	3,098
<b>Operating loss before changes in working capital</b>		<b>(5,268)</b>	(12,733)
Increase in inventories		—	(77)
Decrease in trade and other receivables		<b>32</b>	2,918
(Decrease)/increase in trade and other payables		<b>(872)</b>	557
<b>CASH USED IN OPERATIONS</b>		<b>(6,108)</b>	(9,335)
<b>Tax recovered</b>			
Income taxes recovered		—	105
<b>NET CASH USED IN OPERATING ACTIVITIES</b>		<b>(6,108)</b>	(9,230)

Consolidated Cash Flow Statement  
For the year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
<b>INVESTING ACTIVITIES</b>			
Payment for purchase of property, plant and equipment		—	(501)
Proceeds from disposal of property, plant and equipment		—	128
Expenditure on development projects		—	(1,271)
Net cash outflow from acquisition of subsidiary	33	—	(15,000)
Payment for deposits for acquisition of subsidiaries		<b>(10,000)</b>	(10,804)
Decrease/(increase) in investment funds		<b>10,016</b>	(8,461)
Interest received		<b>1</b>	82
<b>NET CASH FROM/(USED IN) INVESTING ACTIVITIES</b>		<b>17</b>	<b>(35,827)</b>
<b>FINANCING ACTIVITIES</b>			
Repayment of bank loan		—	(943)
Repayment of other loan payable		—	(35)
Advance from directors		<b>58</b>	657
Advance from a shareholder		<b>5,603</b>	15,789
Interest paid		—	(916)
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<b>5,661</b>	<b>14,552</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(430)</b>	<b>(30,505)</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>		<b>561</b>	<b>31,066</b>
Effect of foreign exchange rate changes		<b>33</b>	—
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>		<b>164</b>	<b>561</b>

The notes on pages 34 to 78 form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 1. COMPANY BACKGROUND

SJTU Sunway Software Industry Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KT1-1111, Cayman Islands and, its principal place of business is located at Room 2801, 28/F, China Merchant Tower, Shun Tak Centre, 168-200 Connaught Road, Central, Hong Kong.

The principal activity of the Group during the year is the provision of information localisation services.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

### a) State of books and records maintained by certain subsidiaries

The financial statements have been prepared based on the books and records maintained by the Company and its subsidiaries. However, after the reconstitution of the board, the Group no longer has access to certain books and records in respect of SJTU Sunway Information Technology Co. Ltd., SUNV (Beijing) Century Information Technology Co., Ltd., Beijing Guoxin Sunway IT Co., Ltd., Shanghai Sunway Century IT Co., Ltd., and Fujian Multi Language Translation Service Company Limited, the subsidiaries of the Company. The present directors have asked for co-operation from the former directors to assist in locating the relevant information and documents. However, the present directors has lost contact with certain former directors and are still unable to locate the relevant information and documents within the time constraint in the preparation of these financial statements. Hence, only limited books and records of these subsidiaries are accessible by the present directors. In view of the foregoing, no representations as to the completeness of the books and records could be given by the present directors although care has been taken in the preparation of the financial statements to mitigate the effect of the incomplete records. The directors have in the assessment of the Group's assets and liabilities taken such steps as they considered practicable to establish these assets and liabilities based on the information of which they were aware and have made provisions and adjustments as they considered appropriate in the preparation of these financial statements.

On this basis, the directors believe that no significant liability has not been included in these financial statements.

### b) Going concern

At 31 December 2006, the Group had net current liabilities of HK\$21,877,000, including the Group's short-term bank loans of approximately HK\$14,000,000 which have been overdue as at the date of authorisation for issue of these financial statements.

In order to strengthen the capital base of the Group and to improve the Group's financial position, immediate liquidity and cash flows, and otherwise to sustain the Group as a going concern, the directors of the Company have adopted the following measures:

- i) The directors of the Company are in ongoing negotiations with the Group's banker to reschedule the repayment of bank borrowings due from the Group and to seek the ongoing support to the Group from this banker and another bankers.
- ii) The directors of the Company are considering various alternatives to strengthen the capital base of the Company through various fund raising exercises, including but not limited to, a private placement, an open offer or a rights issue of new shares of the Company.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

### b) Going concern (Continued)

- iii) The directors of the Company continue to take action to tighten cost controls over various operating expenses, and are actively seeking new investment and business opportunities with an aim to attain profitable and positive cash flow operations.

In the opinion of the directors of the Company, in light of the measures taken to date, together with expected results of other measures in progress, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to return to a commercially viable going concern. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial and liquidity position at 31 December 2006.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these potential adjustments have not been reflected in the financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. These new and revised HKFRSs have no significant impact on the results or the financial position of the Group and the Company for current and previous accounting periods.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 37).

### b) Basis of preparation of the Financial Statements

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### b) Basis of preparation of the Financial Statements (Continued)

The measurement basis used in the preparation of the financial statements is the historical cost basis.

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. All financial information presented in Hong Kong dollars has been rounded to the nearest thousand.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 31.

#### c) Subsidiaries and Minority Interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised profits but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

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

#### **c) Subsidiaries and Minority Interests (Continued)**

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any future losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 3(l) or (m) depending the nature of the liability.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 3(j)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

#### **d) Associate**

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in the associate recognised for the year (see notes 3(e)) and (j)).

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 3(j)). In respect of associate, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in profit or loss.

On disposal of a cash generating unit or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

#### f) Investment Fund

Investment funds are classified as current assets. Investment funds are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

#### g) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 3(j)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Leasehold improvements	over the shorter of 5 years or the unexpired terms of leases
Computer and other equipment	4-5 years
Furniture and fixtures	3 years
Motor vehicles	8 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.



### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### h) Intangible Assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 3(j)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 3(j)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The capitalised development costs with finite useful lives are amortised from the date they are available for use and their estimated useful lives are five years.

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

#### i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

##### i) *Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### i) Leased assets (Continued)

##### ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

#### j) Impairment of assets

##### i) Impairment of trade and other receivables

Trade and other receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised. The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

##### ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- intangible assets;
- investments in subsidiaries and associates; and
- goodwill.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### j) Impairment of assets (Continued)

##### ii) Impairment of other assets (Continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

##### — Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

##### — Recognition of impairment losses

An impairment loss is recognised in profit or loss whether the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

##### — Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 3(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 3(j)).

#### l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

#### m) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

#### n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

#### o) Employee benefits

##### i) *Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

##### ii) *Share-based payments*

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### o) Employee benefits (Continued)

##### ii) Share-based payments (Continued)

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

#### p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### p) Income tax (Continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the foreseeable future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax liabilities on a net basis or realise and settle simultaneously.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### q) Provisions and contingent liabilities

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

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

#### r) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit or loss as follows:

##### i) *Provision of information localisation services*

Revenue from the provision of information localisation services are recognised when the services are rendered.

##### ii) *Sales of goods*

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

##### iii) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

#### s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### s) Translation of foreign currencies (Continued)

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

#### t) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

#### u) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- ii) the Group and the party are subject to common control;
- iii) the party is an associate of the Group;
- iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.



### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### v) Segment reporting

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

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

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

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

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

### 4. TURNOVER

Turnover represents the revenue from the provision of information localisation services and the sales value of goods sold after allowances for goods returned, excludes value added or other sales taxes and is after the deduction of any trade discounts. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2006 HK\$'000	2005 HK\$'000
Information localisation services	715	3,759
General software	—	5
	<b>715</b>	<b>3,764</b>

**5. OTHER REVENUE**

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Interest income	<b>1</b>	82
Other income	<b>5</b>	64
	<b>6</b>	146

**6. LOSS BEFORE TAXATION**

Loss before taxation is arrived at after charging/(crediting):

**a) Research and development costs**

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Staff costs	—	651
Rental expenses	—	577
Others	—	43
	—	1,271
Less: Amount capitalised (note 14)	—	(1,271)
	—	—
Add: Amortisation of intangible assets	<b>1,329</b>	1,160
Impairment loss of intangible assets	<b>3,173</b>	438
	<b>4,502</b>	1,598

**b) Finance costs**

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Interest on bank borrowings wholly repayable within five years	<b>1,483</b>	1,125

6. LOSS BEFORE TAXATION (Continued)

c) Staff costs (including directors' remuneration)

	2006 HK\$'000	2005 HK\$'000
Salaries, wages and allowances	2,181	5,115
Equity-settled share-based payment expenses	—	2,034
Contributions to retirement benefits schemes (Note 27)	74	396
	<b>2,255</b>	<b>7,545</b>

d) Other items

	2006 HK\$'000	2005 HK\$'000
Auditors' remuneration		
— current year	300	325
— over-provision in prior year	—	(48)
Depreciation of property, plant and equipment	242	1,231
Amortisation of intangible assets	1,329	1,160
Impairment losses in respect of		
— Interests in an associate	4,849	—
— Goodwill	9,697	—
— Intangible assets	3,173	438
— Inventories	—	2,636
— Trade and other receivables	519	7,446
— Property, plant and equipment	1,468	—
Loss on investment funds	6,411	—
Loss on disposal of property, plant and equipment	—	47
Loss on disposal of an associate	—	3,098
Write-off of property, plant and equipment	—	1,906
Write-off of deposit for acquisition of property, plant and equipment (included in other receivables)	—	3,774
Write-off of trade and other receivables	331	—
Operating lease charges in respect of properties:		
— minimum lease payments	132	1,488
Net foreign exchange loss	—	14
Equity-settled share-based payment expenses	—	1,248

## 7. INCOME TAX IN THE CONSOLIDATION INCOME STATEMENT

- a) Income tax in the consolidated income statement represents:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
<b>Current tax — PRC income tax</b>		
Provision for the year	—	6

No provision for Hong Kong Profits Tax has been made as the Group has no estimated assessable profits the years ended 31 December 2006 and 2005.

For the year ended 31 December 2006, no provision for PRC income tax has been made as the Group has no estimated assessable profits for the year. For the year ended 31 December 2005, the PRC income tax of the Group represented the provision for the PRC income tax on profits of subsidiaries operating in the PRC which have been calculated at the prevailing income tax rates ranging from 7.5% to 33% under the relevant PRC income tax rules and regulations applicable to the subsidiaries.

As foreign investment enterprises in the PRC, two subsidiaries of the Company are granted certain tax relief, under which they are entitled to income tax exemption for first three profit making years and to a 50% relief for PRC income tax to the following three years, after which the subsidiaries' profits are subject to PRC income tax at the rate of 15%.

- b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Loss before tax	<b>(10,966)</b>	(39,453)
Notional tax on loss before tax, calculated at the rates applicable to losses in the tax jurisdictions concerned	<b>(1,572)</b>	(3,341)
Tax effect of non-deductible expenses	<b>4,236</b>	2,008
Tax effect on non-taxable income	<b>(2,426)</b>	—
Tax effect of prior years' tax losses utilised this year	<b>(411)</b>	—
Tax effect on unused tax losses not recognised	<b>173</b>	1,339
Actual tax expense	—	6

## 8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Share-based payments HK\$'000	Contributions to retirement benefits schemes HK\$'000	2006 Total HK\$'000
<i>Executive Directors</i>					
Sze Wai, Marco (note 8)	—	200	—	10	210
He En Pei (note 6)	—	205	—	8	213
Shang Guan Bu Yan (note 8)	—	100	—	5	105
Chen Si Gen (note 8)	—	150	—	8	158
Tan Shu Jiang (note 2)	—	100	—	5	105
<i>Independent Non-Executive Directors</i>					
Wang Tian Ye (note 1)	100	—	—	—	100
Wang Bin (note 1)	100	—	—	—	100
Xu Shi Hong (note 1)	100	—	—	—	100
	<b>300</b>	<b>755</b>	<b>—</b>	<b>36</b>	<b>1,091</b>

	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Share-based payments HK\$'000	Contributions to retirement benefits schemes HK\$'000	2005 Total HK\$'000
<i>Executive Directors</i>					
Sze Wai, Marco (note 8)	—	240	170	12	422
He En Pei (note 6)	—	280	546	12	838
Chu Chi Shing (note 7)	—	90	—	4	94
Shang Guan Bu Yan (note 8)	—	120	113	6	239
Chen Si Gen (note 8)	—	180	113	9	302
Wang Hui Bo (note 7)	—	135	—	7	142
He Zhan Tao (note 7)	—	180	61	9	250
Chen Cheng Ping (note 4)	—	10	—	1	11
Tan Shu Jiang (note 2)	—	20	—	1	21
<i>Independent Non-Executive Directors</i>					
Wang Tian Ye (note 1)	120	—	23	—	143
Wang Bin (note 1)	66	—	—	—	66
Xu Shi Hon (note 1)	66	—	—	—	66
Song Jing Sheng (note 5)	54	—	—	—	54
Ho Chen-yu (note 3)	73	—	—	—	73
	<b>379</b>	<b>1,255</b>	<b>1,026</b>	<b>61</b>	<b>2,721</b>

## 8. DIRECTORS' REMUNERATION (Continued)

Notes:

1. Appointed on 13 June 2005 and resigned on 27 March 2007
2. Appointed on 1 November 2005
3. Retired on 6 May 2005
4. Resigned on 4 February 2005
5. Resigned on 13 June 2005
6. Resigned on 6 September 2006
7. Resigned on 1 October 2005
8. Resigned on 1 February 2007

For the years ended 31 December 2006 and 2005, no emoluments were paid to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. During the years ended 31 December 2006 and 2005, no fee or any other emolument was waived by the Company's directors.

## 9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2005: four) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other (2005: one) individual are as follows:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Salaries and other emoluments	<b>251</b>	225
Contributions to retirement benefits scheme	<b>10</b>	9
	<b>261</b>	234

The emoluments of the other individual (2005: one) with the highest emoluments are within the following band:

	<b>2006</b>	2005
	<b>Number of</b>	Number of
	<b>individuals</b>	individuals
Nil – HK\$1,000,000	<b>1</b>	1

**9. INDIVIDUALS WITH HIGHEST EMOLUMENTS (Continued)**

There were no amounts paid or payable during the years ended 31 December 2006 and 2005 to the five highest paid employees in connection with their retirement from employment with the Group, or inducement to join.

**10. DIVIDEND**

No dividend was paid or proposed during the two years ended 31 December 2006 and 2005 nor has any dividend been proposed since the balance sheet date.

**11. LOSS PER SHARE**

**a) Basic loss per share**

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of approximately HK\$11,248,000 (2005: HK\$38,372,000) and the weighted average of 200,000,000 (2005: 200,000,000) ordinary shares in issue during the year.

**b) Diluted loss per share**

There were no dilutive potential ordinary share in issue during the years ended 31 December 2006 and 2005 as no diluting events were existed during these two years.

**12. SEGMENT REPORTING**

Business segmental information for the year ended 31 December 2006 and 2005 are shown as below and is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

As the Group mainly operates in the People's Republic of China (the "PRC"), no geographical segment information is presented.

**Business segments**

The Group comprise the following main business segments:

*i) Information localisation services*

To provide translation and information localisation services.

*ii) General software*

The development and sale of a range of self developed standardised software products.

**12. SEGMENT REPORTING (Continued)**

**For the year ended 31 December 2006**

	Information localisation services HK\$'000	General software HK\$'000	Consolidated HK\$'000
Revenue from external customers	715	—	715
Segment result	<b>(14,389)</b>	—	<b>(14,389)</b>
Unallocated operating income and expenses			<b>(4,351)</b>
Loss from operations			<b>(18,740)</b>
Finance costs			<b>(1,483)</b>
Waiver of amount due to a former shareholder			<b>23,803</b>
Impairment loss on goodwill			<b>(9,697)</b>
Impairment loss on interest in an associate			<b>(4,849)</b>
Loss before tax			<b>(10,966)</b>
Income tax			—
Loss for the year			<b>(10,966)</b>
Depreciation and amortisation	<b>1,571</b>	—	
Impairment loss on intangible assets	<b>3,173</b>	—	
Impairment loss for trade and other receivables	<b>519</b>	—	
Impairment loss on property, plant and equipment	<b>1,468</b>	—	
Capital expenditure	—	—	
<b>At 31 December 2006</b>			
Segment assets	<b>447</b>	—	<b>447</b>
Unallocated assets			<b>23,174</b>
Consolidated total assets			<b>23,621</b>
Segment liabilities	<b>1,040</b>	—	<b>1,040</b>
Unallocated liabilities			<b>21,748</b>
Consolidated total liabilities			<b>22,788</b>



**12. SEGMENT REPORTING (Continued)**

**For the year ended 31 December 2005**

	Information localisation services HK\$'000	General software HK\$'000	Consolidated HK\$'000
Revenue from external customers	3,759	5	3,764
Segment result	(9,915)	(12,366)	(22,281)
Unallocated operating income and expenses			(12,290)
Loss from operations			(34,571)
Finance costs			(1,125)
Share of losses of associates			(659)
Loss on disposal of an associate			(3,098)
Loss before tax			(39,453)
Income tax			(6)
Loss for the year			(39,459)
Depreciation and amortisation	2,392	—	
Impairment loss on intangible assets	—	438	
Impairment loss for trade and other receivables	—	3,566	
Impairment loss on inventories	—	2,636	
Loss on disposal of property, plant and equipment	—	47	
Write-off of property, plant and equipment	—	1,906	
Write-off of deposit for acquisition of property, plant and equipment (included in other receivables)	—	3,774	
Capital expenditure	501	—	
Segment assets	8,563	—	8,563
Unallocated assets			43,084
Consolidated total assets			51,647
Segment liabilities	2,852	—	2,852
Unallocated liabilities			36,469
Consolidated total liabilities			39,321

### 13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Computer and other equipment <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost</b>					
At 1 January 2005	1,962	3,583	1,323	929	7,797
Additions	378	123	—	—	501
Disposals/write-off	(1,857)	(1,530)	(185)	(143)	(3,715)
At 31 December 2005 and 1 January 2006	483	2,176	1,138	786	4,583
Exchange adjustments	29	130	68	47	274
At 31 December 2006	512	2,306	1,206	833	4,857
<b>Accumulated depreciation</b>					
At 1 January 2005	257	2,066	595	453	3,371
Charge for the year	373	480	267	111	1,231
Eliminated on disposals/ write-off	(536)	(882)	(113)	(102)	(1,633)
At 31 December 2005 and 1 January 2006	94	1,664	749	462	2,969
Exchange adjustments	5	100	45	28	178
Charge for the year	—	68	75	99	242
Impairment losses	413	474	337	244	1,468
At 31 December 2006	512	2,306	1,206	833	4,857
<b>Net book value</b>					
At 31 December 2006	—	—	—	—	—
At 31 December 2005	389	512	389	324	1,614

#### Impairment loss

As explained in note 2(a), the present directors are unable to obtain a fixed assets register and all property, plant and equipment after the reconstitution of the board. As a result, the Group assessed the recoverable amounts of all property, plant and equipment. Based on this assessment, the directors consider that it is unlikely that these assets have any future value in use and the carrying amounts of those assets were fully impaired.

#### 14. INTANGIBLE ASSETS

	<b>The Group</b> HK\$'000
<b>Cost</b>	
At 1 January 2005	11,695
Additions through internal development	1,271
At 31 December 2005 and 1 January 2006	12,966
Exchange adjustments	778
At 31 December 2006	13,744
<b>Accumulated amortisation/impairment</b>	
At 1 January 2005	7,121
Charge for the year	1,160
Impairment loss	438
At 31 December 2005 and 1 January 2006	8,719
Exchange adjustments	523
Charge for the year	1,329
Impairment loss	3,173
At 31 December 2006	13,744
<b>Net book value</b>	
At 31 December 2006	—
At 31 December 2005	4,247

Intangible assets comprise computer software development costs. The intangible assets have finite useful lives and amortised on a straight line basis over five years.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software.

#### Impairment loss

Owing to the unsatisfactory sales records on the computer software, the directors have performed an assessment on the recoverable amount of the development costs previously capitalised for these computer software. Based on this assessment, the directors consider that it is unlikely that these development costs have any future value in use and hence the carrying amount of these development costs in the amount of approximately HK\$3,173,000 (2005: HK\$438,000) were fully impaired.

Notes to the Financial Statements  
For the year ended 31 December 2006

15. INVESTMENTS IN SUBSIDIARIES

	<b>The Company</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>13,765</b>	13,757
Less: Accumulated impairment loss	<b>(13,764)</b>	—
	<b>1</b>	13,757

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group as at 31 December 2006 are as follows:

Name of company	Place of incorporation/ establishment	Place of operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
				Group's effective interest	held by the Company	held by subsidiary	
Besto Investment Limited ("Besto")	British Virgin Islands ("BVI")	Hong Kong	US\$14,833	100%	100%	—	Investment holding
Surplus Trade Investment Limited	BVI	BVI	US\$1,000	100%	100%	—	Investment holding
SJTU Sunway Information Technology Co., Ltd. ("SJTU Sunway (Beijing)")*	PRC	PRC	RMB25,000,000	100%	—	100%	Provision of translation services and sales of general software
SUNV (Beijing) Century Information Technology Co., Ltd.*	PRC	PRC	RMB6,000,000	100%	—	100%	Provision of translation services
New Champion International Ltd.	BVI	BVI	US\$500	100%	—	100%	Investment holding
Beijing Guoxin Sunway IT Co., Ltd.#	PRC	PRC	RMB2,000,000	51%	—	51%	Provision of translation services
Shanghai Sunway Century IT Co., Ltd.#	PRC	PRC	RMB5,000,000	90%	—	90%	Provision of translation services
Fujian Multi Language Translation Service Company Limited#	PRC	PRC	RMB5,000,000	75%	—	75%	Provision of translation services

\* These are wholly foreign-owned enterprises established in the PRC.

# These are domestic limited liability companies established in the PRC.

None of the subsidiaries had issued any debt securities at the year end 31 December 2006.

## 16. INTEREST IN AN ASSOCIATE

	<b>The Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Share of net assets	<b>1,456</b>	1,456
Goodwill	<b>3,393</b>	3,393
	<b>4,849</b>	4,849
Less: impairment loss	<b>(4,849)</b>	—
	<b>—</b>	4,849

The following list contains only the particulars of unlisted associate, which principally affected the results or assets of the Group as at 31 December 2006:

Name of associate	Form of business structure	Place of incorporation and operation	Particulars of paid-up capital	Proportion of ownership interest			Principal activity
				Group's effective interest	held by the Company	held by subsidiary	
Beijing Advanced Information Storage Technology Co., Ltd. ("Beijing AIS") 北京愛思拓信息存儲技術有限公司	Incorporated	PRC	RMB12,500,000	45%	—	45%	Development and sales of jukebox and the provision of data storage services

### Impairment loss

After the reconstitution of the board, the Group cannot access to the accounting records and management accounts of the associate for the year ended 31 December 2006. In the opinion of the Company's directors, the recoverable amount of interest in the associate is doubtful and a full impairment loss is provided for in the consolidated income statement.

### Accounting treatment

After the reconstitution of the board, the Group cannot access to the accounting records and management accounts of the associate for the year ended 31 December 2006, the interest in the associate was accounted for in the consolidated financial statements under the equity method using the financial information of the associate as at 31 December 2005.

## 17. GOODWILL

	<b>The Group</b> HK\$'000
<b>Cost:</b>	
At 1 January 2005	—
Arising on acquisition of a subsidiary (see note 33)	9,697
<hr/>	
At 31 December 2005 and 2006	9,697
<hr/>	
<b>Accumulated impairment losses:</b>	
At 1 January 2005, 31 December 2005 and 1 January 2006	—
Impairment loss	9,697
<hr/>	
At 31 December 2006	9,697
<hr/>	
<b>Carrying amount:</b>	
At 31 December 2006	—
<hr/>	
At 31 December 2005	9,697
<hr/>	

### Impairment test for the cash-generating unit containing goodwill

For the purposes of impairment testing, goodwill has arisen from the acquisition of a subsidiary, New Champion International Limited ("New Champion"). New Champion is an investment vehicle holding 45% interests in Beijing AIS (see note 16). Other than holding the 45% interests in Beijing AIS, New Champion does not have any business nor own any material assets. Beijing AIS is principally engaged in the development and sale of Jukebox in the PRC.

Goodwill acquired has been allocated to the cash generating unit of Beijing AIS.

As explained in note 16, the Group no longer has access to the accounting records and management account of Beijing AIS for the year ended 31 December 2006. The Company's directors are currently negotiating an arrangement for the Group to access the financial information of Beijing AIS with the management of Beijing AIS but has been unable to reach an agreement at this point in time. The Company's directors consider that it is prudent to make a full impairment loss for goodwill of approximately HK\$9,697,000.

## **18. DEPOSITS FOR ACQUISITION OF SUBSIDIARIES**

On 30 March 2005, the Group entered into an equity transfer agreement with Mighty Wish Services Limited ("Mighty Wish") and an independent third party (the "Equity Transfer Agreement"). Pursuant to the Equity Transfer Agreement, the Group agreed to acquire the entire equity interest in both Mighty Wish and Shanghai Ruijin Translation Company Limited ("Translation Company") for a consideration of HK\$19,500,000 subject to the conditions that the Translation Company has been reorganised as a wholly owned subsidiary of Mighty Wish or with prior written consent of the Group, under the PRC laws and regulations, that the Translation Company has been legally and validly converted into a wholly owned foreign enterprise within 90 days after the execution of the Equity Transfer Agreement. The Equity Transfer Agreement shall be terminated forthwith in the event that if the conditions set out above is not fulfilled within 90 days after the execution of the Equity Transfer Agreement. The independent third party shall return the entire amount of the Deposit (without interest) to the Group.

On 28 June 2005, the Group, the independent third party and Mighty Wish entered into a supplementary agreement to the Equity Transfer Agreement ("Supplemental Agreement") pursuant to which the long stop date for the fulfillment of such condition precedent to the completion of the Acquisition was extended from 90 days to 180 days after the execution of the Equity Transfer Agreement.

At 31 December 2006, the Group has paid an aggregate amount of approximately HK\$12,710,000 (2005: HK\$12,710,000) which was retained as a deposit for the acquisition of Mighty Wish and Translation Company. The transactions have not yet completed and the long stop date was expired as at the balance sheet date.

However, the Company's directors remained confident that the above transaction will be completed and the entire deposit will be converted into investment costs in subsidiaries.

On 16 May 2006, Surplus Trade Investment Limited ("Surplus Trade"), a wholly owned subsidiary of the Company, entered into another equity transfer agreement with Mr. Wong Chi Wai ("Mr. Wong"), an independent third party. Pursuant to the agreement, Surplus Trade agreed to acquire the entire equity interest in First Preview Limited and its subsidiaries (together referred to as the "First Preview Group") for a consideration of HK\$42,000,000. First Preview Group is engaged in hotel business.

During the year ended 31 December 2006, the Group has paid an aggregate amount of HK\$10,000,000 which was retained as a deposit for the acquisition of First Preview Group. As certain conditions set out in such equity transfer agreement has not yet been fulfilled, the transaction cannot completed at the balance sheet date.

However, the Company was informed by the Stock Exchange that such acquisition would not be in full compliance with rule 19.88 of the GEM Listing Rules (the "Rule 19.88"), and the waiver of the requirements of the Rule 19.88 is not granted in this case pursuant to the rule 19.89 of the GEM Listing Rules. In the event that no revised structure of the acquisition could not be agreed upon, the parties will terminate the said conditional equity transfer agreement as the conditions precedent could not be fulfilled, and Mr. Wong should refund the deposit of HK\$10,000,000 to the Group. The Company's directors have confident that the said deposit will be recovered.

**19. TRADE AND OTHER RECEIVABLES**

	The Group		The Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts due from the subsidiaries	—	—	<b>11,175</b>	23,179
Trade debtors	<b>53</b>	417	—	—
Other debtors, deposits and prepayments	<b>694</b>	1,125	<b>64</b>	2,214
	<b>747</b>	1,542	<b>11,239</b>	25,393

The amounts due from the subsidiaries are unsecured, non-interest bearing and has no fixed terms of repayment. The impairment loss of approximately HK\$20,500,000 has been made for the amounts due.

Debts are due for payment at the date of billing. Credit term granted by the Group to customers is generally between one to six months. Subject to negotiation, extended credit terms are available for certain major customers with well-established trading records.

All of the trade and other receivables, apart from amounts due from subsidiaries, are expected to be recovered within one year.

Included in trade and other receivables are trade debts (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	The Group	
	2006	2005
	HK\$'000	HK\$'000
Within 30 days	—	12
31–120 days	—	33
121–240 days	—	65
241–360 days	—	307
Over 360 days	<b>53</b>	—
	<b>53</b>	417



## 20. INVESTMENT FUNDS

Pursuant to an agreement dated 1 June 2004, a subsidiary of the Company entered into an agreement with 北京盛邦投資有限公司 (“盛邦”), an independent PRC company, for a term of one year for the provision of advisory service on capital investment and expired on 30 June 2005. As at 31 December 2004, a total of approximately HK\$7,967,000 was placed with 盛邦 and recorded as investment funds.

On 30 June 2005, the subsidiary of the Company entered into a supplementary agreement to extend the provision of advisory service on capital investment for a further year and revised to expire on 30 June 2006. During the year ended 31 December 2005, the Group paid further deposits to 盛邦 approximately of HK\$8,460,000 with an aggregate amount of approximately HK\$16,427,000 held by 盛邦 as at 31 December 2005.

During the year ended 31 December 2006, the agreement for provision of advisory service on capital investment has expired. An aggregate amount of approximately HK\$10,016,000 have been refunded from 盛邦. However, the directors are of the opinion that, the remaining balances of approximately HK\$6,411,000 is unlikely to be refunded from 盛邦 and a loss on investment funds has been accounted for in the consolidated income statement.

## 21. LOANS TO MINORITY SHAREHOLDERS

	The Group	
	2006	2005
	HK\$'000	HK\$'000
Loans to minority shareholders	1,396	1,396
Less: Impairment loss for bad and doubtful debts	(1,396)	(1,396)
	—	—

Loans to minority shareholders were unsecured, bearing interest at 3% per annum and were repayable before 31 December 2005. The amounts were overdue and in the opinion of the Company's directors, the amounts due from the minority shareholders were irrecoverable and accordingly, an impairment loss of approximately HK\$1,396,000 was recognised in the consolidated income statement during the year ended 31 December 2005.

## 22. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts due to the subsidiaries	—	—	8,136	1,640
Trade creditors	369	352	—	—
Other creditors and accrued charges	6,603	5,786	1,093	2,400
	<b>6,972</b>	6,138	<b>9,229</b>	4,040

The amounts due to the subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

All of the trade and other payables, apart from amounts due to subsidiaries, are expected to be recovered within one year.

Included in trade and other payables, are trade creditors with the following ageing analysis as of the balance sheet date:

	The Group	
	2006	2005
	HK\$'000	HK\$'000
Due within 90 days or on demand	—	12
Over 360 days	369	340
	<b>369</b>	352

## 23. AMOUNT DUE TO A FORMER SHAREHOLDER

	The Group		The Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amount due thereto	—	18,217	—	12,760

Amount due to the former shareholder was unsecured, interest free and repayable on demand. During the year ended 31 December 2006, the former shareholder agreed to waive the amounts of approximately HK\$23,803,000 and HK\$17,752,000 due from the Group and the Company, respectively.

**24. AMOUNTS DUE TO FORMER DIRECTORS AND A DIRECTOR**

The amounts due to former directors and the director are unsecured, interest free and repayable on demand.

**25. BANK LOAN, UNSECURED**

At 31 December 2006, the bank loan was payable as follows:

	<b>The Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
On demand or within one year	<b>14,000</b>	13,208

The unsecured bank loan amounting to approximately HK\$14,000,000 (2005: HK\$13,208,000) was bearing interest at 6.38% (2005: 6.38%) per annum and matured on 30 May 2005. The unsecured bank loan has been overdue and interest charge revised to 9.558% per annum. The Company is in the process of negotiating the terms with the relevant banker. As at 31 December 2006, those negotiations had not been concluded and the lender has not agreed to waive its right to demand immediate payment as at the balance sheet date.

The unsecured bank loan is guaranteed by a former shareholder of a subsidiary of the Company.

**26. OTHER LOAN PAYABLE, UNSECURED**

At 31 December 2006, the other loan was payable as follows:

	<b>The Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
On demand or within one year	<b>436</b>	436

The other loan advanced from an independent third party is interest free and repayable on demand.

## **27. RETIREMENT BENEFITS**

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the Group participate in a defined contribution retirement scheme (the "Scheme") organised by the PRC municipal government whereby the PRC subsidiaries are required to contribute to the Scheme for the retirement benefits of eligible employees. Contributions made are calculated based on 19% to 34% of the payroll costs of the eligible employees. The PRC municipal government is responsible for the administration of the Scheme. The PRC subsidiaries are not liable to any retirement benefits beyond its obligation to contribute.

For providing retirement benefits to its employees in Hong Kong, the Group has set up a mandatory provident fund ("MPF") scheme which is available to all Hong Kong employees. The Group's and the employees' contributions to the MPF scheme are based on 5% of the relevant income of the relevant employees in accordance with the requirements of the Mandatory Provident Fund Scheme Ordinance and related regulations.

Contributions made to the above schemes by the Group amounted to approximately HK\$74,000 (2005: HK\$396,000) for the year. No other retirement benefit scheme is participated by the Group.

## **28. EQUITY SETTLED SHARE-BASED TRANSACTIONS**

A share option scheme (the "Scheme") of the Company was adopted on 25 November 2003 for the purpose of providing incentives and rewards to eligible participants, including the executive directors of the Company, who contribute to the success of the Group's operations.

The Board of Directors of the Company may, at their discretion, grant option to the eligible participants including any employees, directors, suppliers, customers, advisors, consultants, joint venture partners and any shareholders of any members of the Group or any invested entities or any holders of any securities issued by any members of the Group or any invested entities. The maximum number of shares of the Company which may be issued upon exercise of all options granted under its Scheme or any other share option scheme adopted by the Company must not exceed 30% of its issued share capital from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option scheme of the Group must not in aggregate exceed 20,000,000 shares, being 10 per cent of the shares in issue unless it is approved by shareholders in a general meeting of the Company. The maximum number of shares issuable under the options to each eligible participant in any 12-month period is limited to 1% of the shares in issue unless it is approved by substantial shareholder in a general meeting of the Company. Any grant of options under the Scheme to a director, chief executive, management shareholder or substantial shareholder of the Company or any of their respective associates must be approved by independent non-executive directors (excluding any independent non-executive director who or whose associate is the proposed grantee of the options). Any share options granted to a substantial shareholder or an independent non-executive director of the Company or to any of their respective associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of grant) in excess of HK\$5 million, in any 12-month period, are subject to shareholders' approval in a general meeting of the Company.

At 31 December 2006, the number of shares of the Company in respect of which options had remained outstanding under the Scheme of the Company was 8,000,000 (2005: 15,070,000), representing 4% (2005: 7.54%) of the shares of the Company in issue at that date.

## 28. EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

The offer of a grant of share options may be accepted within 21 business days from the date of the offer of grant of the option. The consideration for a grant of options the Company is HK\$1.00. The exercise period of the share options granted is determined by the Board of Directors.

Total consideration received during the year ended 31 December 2006 from eligible participants for taking up the options granted is HK\$Nil (2005: HK\$45).

The exercise price of the share options is determined by the Board of Directors providing that the exercise price of the share options shall not be less than the highest of (i) the closing price of the shares on GEM as stated in the Stock Exchange's daily quotations on the date of the offer of grant, which must be a business day; (ii) the average closing price of the shares on GEM as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

- a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors			
— on 17 January 2005	2,020,000	From the date of grant	10 years
— on 10 October 2005	4,700,000	From the date of grant	10 years
Options granted to employees			
— on 17 January 2005	3,480,000	From the date of grant	10 years
— on 10 October 2005	1,400,000	From the date of grant	10 years
Options granted to consultants			
— on 10 October 2005	6,700,000	From the date of grant	10 years
Options granted to other eligible participants			
— on 17 January 2005	2,000,000	From the date of grant	10 years
<b>Total share options</b>	<b>20,300,000</b>		

## 28. EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

- b) The number and weighted average exercise prices of share options are as follows:

	2006		2005	
	Weighted average exercise price	Number of options '000	Weighted average exercise price	Number of options '000
Outstanding at the beginning of the year	HK\$0.24	15,070	—	—
Granted during the year	—	—	HK\$0.25	20,300
Lapsed during the year	HK\$0.26	(7,070)	HK\$0.30	(5,230)
Outstanding at the end of the year	HK\$0.22	8,000	HK\$0.24	15,070
Exercisable at the end of the year	HK\$0.22	8,000	HK\$0.24	15,070

The options outstanding at 31 December 2006 had an exercise price of HK\$0.45 or HK\$0.14 (2005: HK\$0.45 or HK\$0.14) and a weighted average remaining contractual life of 9 years (2005: 10 years)

### c) Fair value of the share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial model.

Fair value of share options and assumptions

	17/1/2005	10/10/2005
Fair value at measurement date	HK\$0.24	HK\$0.11
Share price per share	HK\$0.45	HK\$0.14
Exercise price per share	HK\$0.45	HK\$0.14
Expected volatility	75% per annum	75% per annum
Expected life	10 years	10 years
Expected dividend	0% per annum	0% per annum
Risk-free interest rate	2.89% per annum	4.127% per annum

**28. EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)**

**c) Fair value of the share options and assumptions (Continued)**

In respect of the share options granted on 17 January 2005, the valuation of the fair value as at the balance sheet date was conducted by a professional valuation company, Watson Wyatt Hong Kong Limited on 4 August 2005. According to its report, the volatility rate of the share price of the Company was determined with reference to the movement of selected comparators' share prices during the period from November 1999 to July 2005. Taking into account the probability of leaving employment and early exercise behavior stated above, the expected life of the grant of options was estimated to be 5.24 years. The risk-free interest rate is taken to be the linearly interpolated yield using Hong Kong Exchange Fund Notes as at 17 January 2005. It is expected that option holders will exercise when the share price is at least 325% of the exercise price.

In respect of the share options granted on 10 October 2005, the valuation of their fair value as at the balance sheet date was conducted by another professional valuation company, B.I. Appraisals Limited, on 22 March 2005. According to its report, historical volatility rate of the share price of the Company was determined with reference to the 90-day historical share prices of the Company proceeding the balance sheet date. Risk-free rate of 4.127% were adopted which were the Hong Kong Interbank Offered Rates (6-months) as at the end of December 2005. Other terms and conditions of these options including but not limited to the exercise condition, number of share outstanding, strike price and conversion numbers of the options.

The Group recognised the total expenses of approximately HK\$3,282,000 for the year ended 31 December 2005 in relation to share options granted by the Company.

**29. DEFERRED TAXATION NOT RECOGNISED**

The Group has not recognised deferred tax assets in respect of tax losses of approximately HK\$15,395,000 (2005: HK\$15,596,000) as it is not probable that future taxable profits will be available against which the asset can be utilised. The tax losses can be used to make good of subsequent years' profits and will expire in five years from the year the tax losses were resulted under the current tax legislation.

The Company had no significant potential deferred tax assets and liabilities for the year end at the balance sheet date.

Notes to the Financial Statements  
For the year ended 31 December 2006

30. CAPITAL AND RESERVES

a) The Group

	Attributable to equity shareholders of the Company									
	Share capital	Share premium	Capital surplus	General reserve	Exchange reserve	Share-based	Accumulated losses	Total	Minority interests	Total equity
						compensation reserve				
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005	2,000	30,224	15,090	2,927	—	—	(3,825)	46,416	2,087	48,503
Equity settled share-based transactions	—	—	—	—	—	3,282	—	3,282	—	3,282
Loss for the year	—	—	—	—	—	—	(38,372)	(38,372)	(1,087)	(39,459)
At 31 December 2005	2,000	30,224	15,090	2,927	—	3,282	(42,197)	11,326	1,000	12,326
At 1 January 2006	2,000	30,224	15,090	2,927	—	3,282	(42,197)	11,326	1,000	12,326
Exchange difference on translation of financial statements of overseas subsidiaries	—	—	—	—	(550)	—	—	(550)	23	(527)
Share options lapsed	—	—	—	—	—	(1,540)	1,540	—	—	—
Loss for the year	—	—	—	—	—	—	(11,248)	(11,248)	282	(10,966)
At 31 December 2006	2,000	30,224	15,090	2,927	(550)	1,742	(51,905)	(472)	1,305	833

Note: The consolidated loss attributable to equity shareholders of the Company includes a loss of approximately HK\$20,399,000 (2005: HK\$8,402,000) which has been dealt with in the financial statements of the Company.



30. CAPITAL AND RESERVES (Continued)

b) The Company

	Share capital HK\$'000	Share premium HK\$'000	Share-based compensation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2005	2,000	30,224	—	(6,074)	26,150
Equity settled share-based transactions	—	—	3,282	—	3,282
Loss for the year	—	—	—	(8,402)	(8,402)
At 31 December 2005	2,000	30,224	3,282	(14,476)	21,030
At 1 January 2006	2,000	30,224	3,282	(14,476)	21,030
Share options lapsed	—	—	(1,540)	1,540	—
Loss for the year	—	—	—	(20,399)	(20,399)
At 31 December 2006	2,000	30,224	1,742	(33,335)	631

c) Share capital

i) Authorised and issued share capital

	2006		2005	
	No. of shares '000	HK\$'000	No. of shares '000	HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.01 each	4,000,000	40,000	4,000,000	40,000
<i>Ordinary shares, issued and fully paid:</i>				
At 1 January and 31 December	200,000	2,000	200,000	2,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

### 30. CAPITAL AND RESERVES (Continued)

#### c) Share capital (Continued)

##### ii) Terms of unexpired and unexercised share options at balance sheet date

	Exercise price	2006 Number	2005 Number
Exercise period			
17 January 2005 to 16 January 2015	HK\$0.45	2,000,000	4,770,000
10 October 2005 to 9 October 2015	HK\$0.14	6,000,000	10,300,000
		<b>8,000,000</b>	15,070,000

Each option entitles the hold to subscribe for one ordinary share in the Company. Further details of these options are set out in note 28 to the financial statements.

#### d) Nature and purpose of reserves

##### i) Share premium

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall in the ordinary course of business.

##### ii) Capital surplus

Capital surplus mainly represents the waiver of loans from the then shareholders of Besto Investment Limited, which was contributed as part of the capital to SJTU Sunway Information Technology Co., Ltd.

##### iii) General reserve

According to its articles of association of the subsidiaries in the PRC, the subsidiaries are required to set up a general reserve and the transfer to this fund are at the discretion of these subsidiaries' directors. This fund can be utilised to acquire property, plant and equipment, to increase current assets and may be converted into paid-in capital. Transfers from this fund are subject to approval by its board of directors of these subsidiaries.

##### iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt within in accordance with the accounting policies set out in note 3(s).

##### v) Share-based compensation reserve

The fair value of the actual or estimated number of unexercised share options granted to employees of the company recognised in accordance with the accounting policy adopted for share based payments in note 3(o)(ii).

### 31. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies which are described in note 3, management has made the following judgements that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

#### **Depreciation of property, plant and equipment**

Property, plant and equipment are depreciated on a straight line basis over their estimated useful lives, after taking into account their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

#### **Amortisation of intangible assets**

Intangible assets are amortised on a straight-line basis over their estimated useful lives. The determination of the useful lives involve management's estimation. The Group re-assesses the useful life of the intangible assets and if the expectation differs from the original estimate, such a difference may impact the amortisation in the year and the estimate will be changed in the future period.

#### **Impairment of intangible assets (excluding goodwill)**

The Group evaluates whether intangible assets (excluding goodwill) have suffered any impairment whenever events or changes in circumstances indicated that the carrying amount of the assets may not be recoverable, in accordance with the accounting policy stated in note 3(j). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

#### **Impairment of trade and other receivables**

The Group performs ongoing credit evaluations of its customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that its has been identified. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses.

#### **Impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 December 2006, the carrying amount of goodwill is approximately HK\$nil (2005: HK\$9,697,000). Details of impairment testing on goodwill are set out in note 17.

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables, other receivables, investment funds, deposit for acquisition of subsidiaries, trade and other payables and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### a) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due.

At 31 December 2006, the Group had net current liabilities of approximately HK\$22 million (2005: HK\$21 million), overdue bank borrowings of approximately HK\$14 million (2005: HK\$13 million) and cash and cash equivalents of only approximately HK\$164,000 (2005: HK\$561,000). Notwithstanding these, the directors consider that with the successful outcome of the Group's banker and prospective investors to secure continual financial support and obtain new working capital, the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. The validity of which depends upon the future funding being available.

### b) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

### c) Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed rate bank borrowings.

### d) Foreign currency risk

As most of the Group's monetary assets and liabilities are denominated in Hong Kong Dollars and Renminbi, and the Group conducted its business transactions principally in Hong Kong Dollars and Renminbi, all of which were relatively stable during the year under review, the Group experiences only immaterial exchange rate fluctuations. The Group considers that as the exchange rate risk of the Group is not significant, the Group did not employ any financial instruments for hedging purposes.

### e) Estimation of fair values

The estimation of fair values of share-based compensation is disclosed in note 28.

### 33. ACQUISITION OF A SUBSIDIARY

On 24 June 2005, the Group acquired 100% of the issued share capital and shareholder's loan of New Champion for a consideration of approximately HK\$9,701,000 and HK\$5,299,000 respectively. This acquisition of subsidiary has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was approximately HK\$9,697,000.

In the opinion of directors, the fair value of the identifiable assets and liabilities of the subsidiary acquired during the year ended 31 December 2005 have no significant differences from their respective carrying amounts. The net assets acquired in the transaction, and the goodwill arising, are as follows:

	<b>Acquiree's carrying amount</b>
	<i>HK\$'000</i>
<hr/>	
Net assets acquired:	
Other receivables	4
Interest in an associate	5,299
Loan from a former shareholder	(5,299)
	<hr/>
	4
Goodwill	9,697
	<hr/>
	9,701
<hr/>	
Consideration is satisfied by:	
Cash	15,000
Less: shareholder's loan	(5,299)
	<hr/>
Net consideration	9,701
	<hr/>

The outflow of cash and cash equivalents in respect of the purchase of this subsidiary together with the shareholder's loan are HK\$15,000,000.

### 33. ACQUISITION OF A SUBSIDIARY (Continued)

Pursuant to the sales and purchase agreement for the acquisition of New Champion. The consideration shall be adjusted if the audited net profit (prepared in accordance with PRC General Acceptable Accounting Practice) of Beijing AIS, for the period commencing from 1 July 2005 to 30 June 2008 ("Actual Result") be lower than RMB10,000,000. In the event that the original consideration shall be adjusted in accordance with the above mechanism, the vendor shall within 30 business days after the issue of the Actual Result refund the applicable agreed amount to the Group in cash. Further details of the acquisition are set out in the Company's circular dated 15 July 2005.

The goodwill arising on the acquisition of New Champion is attributable to the anticipated profitability of its associate, Beijing AIS, which engaged in development and sales of jukebox and provision of related services that can be broadly applied in the PRC market in the near future.

New Champion did not contribute any revenue nor profit to the Group for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2005, total group revenue and profit for the period would not be changed.

### 34. OPERATING LEASE COMMITMENTS

At 31 December 2006 the total future minimum lease payments under non-cancellable operating leases are repayable as follows:

	The Group	
	2006	2005
	HK\$'000	HK\$'000
Within 1 year	—	1,853
After 1 year but within 5 years	—	2,345
	—	4,198

### 35. RELATED PARTY TRANSACTIONS

#### a) Key management personnel remuneration

The remuneration of directors and other members of key management during the year was as follows:

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Short-term benefits	<b>1,055</b>	2,132
Post-employment benefits	<b>36</b>	76
Share-based payments	<b>—</b>	1,209
	<b>1,091</b>	3,417

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

#### b) Transactions with related parties

During the year, the Group entered into the material related party transactions:

	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Rental expenses ( <i>note</i> )	<b>45</b>	73

*Note:* Rental expenses were paid to a shareholder for the lease of office, during the year ended 31 December 2005.

- c) Balances with related parties are disclosed in notes 19, 21, 22, 23 and 24.
- d) On 17 January 2005, the Company granted 2,000,000 share options to one of its substantial shareholders with an exercised price of HK\$0.45. The estimated fair value of the options granted to this shareholder on that date is HK\$0.2442. The corresponding share-based payments for the options granted amounted to approximately HK\$488,000.

### 36. COMPARATIVE FIGURES

Certain comparative figures have been re-classified to conform to the current year presentation.

**37. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2006**

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

		<b>Effective for accounting periods beginning on or after</b>
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosure	1 January 2007



## FIVE-YEARS FINANCIAL SUMMARY

(Expressed in Hong Kong dollars)

	For the year ended 31 December				
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
<b>RESULTS</b>					
Revenue	715	3,764	13,949	35,502	40,615
Cost of sales	<b>(549)</b>	(2,592)	(9,574)	(11,910)	(15,114)
Gross profit	<b>166</b>	1,172	4,375	23,592	25,501
Other revenue	6	146	1,115	2,247	3,085
Selling and distribution expenses	<b>(110)</b>	(4,824)	(14,953)	(8,246)	(11,214)
Research and development costs	<b>(4,502)</b>	(1,598)	(3,417)	(2,546)	(2,694)
General and administrative expenses	<b>(14,300)</b>	(29,467)	(12,478)	(6,186)	(6,039)
Finance costs	<b>(1,483)</b>	(1,125)	(631)	(208)	122
Waiver of amount due to a former shareholder	<b>23,803</b>	—	—	—	—
Impairment loss on goodwill	<b>(9,697)</b>	—	—	—	—
Impairment loss on interest in an associate	<b>(4,849)</b>	—	—	—	—
Share of losses of associates	—	(659)	5	—	—
Loss on disposal of an associate	—	(3,098)	—	—	—
(Loss)/profit before taxation	<b>(10,966)</b>	(39,453)	(25,984)	8,653	8,761
Income tax	—	(6)	—	(509)	—
(Loss)/profit for the year	<b>(10,966)</b>	(39,459)	(25,984)	8,144	8,761
Attributable to:					
Equity shareholders of the Company	<b>(11,248)</b>	(38,372)	(25,496)	8,144	8,761
Minority interests	<b>282</b>	(1,087)	(488)	—	—
(Loss)/profit for the year	<b>(10,966)</b>	(39,459)	(25,984)	8,144	8,761
(Loss)/earning per share					
Basic	<b>(5.62) cents</b>	(19.19) cents	(12.82) cents	6.26 cents	6.74 cents
Diluted	<b>N/A</b>	N/A	N/A	N/A	N/A

*Five-years Financial Summary*  
*(Expressed in Hong Kong dollars)*

	<b>As at 31 December</b>				
	<b>2006</b>	2005	2004	2003	2002
	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>ASSETS AND LIABILITIES</b>					
Total assets	<b>23,621</b>	51,647	71,591	74,653	47,804
Total liabilities	<b>(22,788)</b>	(39,321)	(23,088)	(21,208)	(16,183)
	<b>833</b>	12,326	48,503	53,445	31,621
Total Equity attributable to equity shareholders of the Company	<b>(472)</b>	11,326	46,416	53,445	31,621
Minority interests	<b>1,305</b>	1,000	2,087	—	—
	<b>833</b>	12,326	48,503	53,445	31,621