藍帆科技控股有限公司*
LINEFAN TECHNOLOGY HOLDINGS LIMITED

(Continued into Bermuda with limited liability)
Stock Code: 8166

Annual Report
2007

* For Identification Purpose Only

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

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

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

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

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Wang Yong *(Chairman)*
Dai Fan *(Chief Executive Officer)*
Zhu Guang Bo

Independent Non-Executive Directors

Chan, Peter Yat Tung
Feng Jue Min
Zhang Gong

COMPLIANCE OFFICER

Wang Yong

COMPANY SECRETARY

Ling Chun Kwok *ACA, FCCA, CPA*

QUALIFIED ACCOUNTANT

Ling Chun Kwok *ACA, FCCA, CPA*

AUDIT COMMITTEE

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

AUDITOR

Shu Lun Pan Horwath Hong Kong CPA Limited
2001 Central Plaza
18 Harbour Road
Wanchai
Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

1901, Henan Building
90 Jaffe Road
Wanchai
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PRINCIPAL SHARE REGISTRAR

The Bank of Bermuda Limited
6 Front Street
Hamilton HM 11
Bermuda

HONG KONG SHARE REGISTRAR

Tricor Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

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

GEM STOCK CODE

8166

WEBSITE ADDRESS

www.aplushk.com/clients/8166linefan/index.html

Chairman's Statement

During year 2007, the Company together with its subsidiaries (the "Group") reviewed and adjusted on a regular basis its strategies in response to the changes of telecommunication policies and market conditions. The Group maintained regional cooperation with China Unicom in providing information application services and like interactive audio recording business, audio telephone book searching services and applied the existing audio search technology to undergo development services.

BUSINESS REVIEW

During the first half of year 2007, the Group continued to collaborate with China Unicom in providing information application services including interactive audio recording businesses, audio telephone book searching services and other business communities. In the second half of year 2007, the Group was to some extent affected by the change in the policies of China Unicom with its value-added services business partners such as increasing the line-rental cost charged to value-added service business partners and higher charges for advertising and promotions. The suspension of Nicam Project has caused a significant decrease in the Group's revenue. Hence, the Group is considering business diversification with other value-added services business partners that provide other value-added services such as self-developed software so as to widen customers base and income streams.

OUTLOOK AND PROSPECTS

The telecommunication development of the PRC is expected to have radical changes and breakthrough in the year 2008 because the integration of telecommunication network, television broadcasting network and internet in the PRC is stepping into a rapidly growing stage and the related value-added services would bring many business opportunities. On the other hand, China will speed up the development of 3G mobile communication model and the related value added services may bring further business opportunities.

In addition to the existing regional cooperation between the Company and China Unicom, the Group will actively establish a mechanism to meet the market challenges by the utilization of the Company's existing resources and capability such as the capability to develop specific and manage new softwares for industry specific telecommunication services in order to increase revenue and profitability of the Group.

During the year, the Company completed a capital restructuring and obtained subscription of shares by a new shareholder. Accordingly, the Company will actively seek new investment opportunities to increase revenue and improve its future profitability and cash flows.

Looking ahead, the Company will continue to have regional cooperation with China Unicom to maintain certain level of income. The Company considers to seek new business opportunities by making use of its existing capability and strength to develop internally the "mobile audio search" for industrial application in the future development of 3G mobile communication model and the related value-added services arising from the integration of three communication networks, namely telecommunication, broadcasting television and internet in China.

Wang Yong
Chairman

Hong Kong, 20 March 2008

Biographical Details of the Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wang Yong（王勇）, aged 37, was appointed as an executive director of the Company on 28 May 2004. Mr. Wang is responsible for the overall strategic development of the Group. Mr. Wang holds an executive master degree in business administration and a bachelor degree in sports medicine. Mr. Wang had served as the general manger of the Beijing subsidiary of the China Scholars Group Company Limited（神州學人集團股份有限公司北京分公司）; a company listed on the Shenzhen Stock Exchange in the People's Republic of China (the "PRC"); assistant to president of China HuaRui Investment and Management Company Limited（中國華瑞投資管理有限公司）; and vice president of GuoZhong Investment and Management Company Limited（國眾投資管理有限公司）. Mr. Wang is currently the director and president of China Scholars Group Limited（神州學人集團股份有限公司）, a company listed on the Shenzhen Stock Exchange in the PRC.

Mr. Zhu Guang Bo（祝廣波）, aged 41 is an executive director of the Company. Mr. Zhu joined the Group in January 2004 and was subsequently appointed as Director in March 2004. Mr. Zhu holds a bachelor's degree in automatic control studies and a master's degree in business administration. Before joining the Group, Mr. Zhu was an officer sitting on the Education Commission of the People's Republic of China. Currently, Mr. Zhu is also serving as the chairman of an information technology company in the PRC. As at 31 December 2007, Mr. Zhu held 3,066,000 ordinary shares of HK$0.10 in the share capital of the Company through his wholly-owned corporation, World Develop Limited, representing approximately 3.97% of the issued ordinary share capital of the Company. Mr. Zhu is a director of World Develop Limited.

Mr. Dai Fan（戴凡）, aged 50, has many years of experience in investment and technology fields. Since 1994, Mr. Dai has acted as the regional manager of a subsidiary of Charter PLC, a global leading engineering company headquartered in London. Since 2001, Mr. Dai has acted as a director of Neworld International Investments Limited, a company principally engaged in investment. Mr. Dai has been a director of Chineseroad Incorporated, a wholly-owned subsidiary of the Company since November 2004. Mr. Dai graduated from 楊州工業專科學校 (Yangzhou Industrial College) (currently known as Yangzhou University) majoring in heating and industrial ventilation engineering and obtained a MBA degree from The University of Dundee in Scotland, UK. As at 31 December 2007, Mr. Dai was interested in a total of 228,790,543 ordinary shares of HK$0.10 in the share capital of the Company. These shares comprised 1,162,500 ordinary shares held by him as beneficial owner, 53,715,000 ordinary shares held by Mr. Dai's controlled corporation, DaHua International (Group) Limited ("DaHua"), representing a total of approximately 71.03% of the issued ordinary share capital of the Company; and 173,913,043 convertible preference shares ("CP Share") of HK$0.10 each, representing all the issued CP Shares of the Company, held by DaHua; details of which are set out in the Circular (the "Circular") of the Company dated 21 September 2007 and the section headed "Management Discussion and Analysis" in this report. Mr. Dai is a director of DaHua.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Doctor Chan, Peter Yat Tung（陳日東博士）, aged 57, was appointed as the independent non-executive director and the chairman of the audit committee of the Company in November 2002. Doctor Chan holds a bachelor of science degree from the University of Miami, Florida, USA, and a doctor degree from the Loyola Law School, Los Angeles, USA. Doctor Chan had served in the Law Offices of Jeffery Winter (Lawyer), the University of International Business and Economics (Visiting Professor), the King & Wood Law Offices (Lawyers, Partner). Doctor Chan was also a member of the American Bar Association, the California Bar Association and a Phi Delta Phi member.

Mr. Zhang Gong（張工）, aged 39, was appointed as an independent non-executive director and a member of the audit committee of the Company in October 2004. Mr. Zhang is a member of The Chinese Institute of Certified Public Accountants. Mr. Zhang holds an executive master's degree in business administration and a bachelor's degree in economics. Mr. Zhang has over 15 years experience in auditing and accounting and is currently the senior vice president and financial controller in a risk management company in the People's Republic of China.

Biographical Details of the Directors and Senior Management

Mr. Feng Jue Min（馮覺民）, aged 44, was appointed as an independent non-executive director and a member of audit committee of the Company in May 2004. Mr. Feng obtained an executive master's degree in business administration from the Guanghua School of Management in Peking University and a bachelor's degree in economics from Peking University. Mr. Feng is a senior economist and has been serving as the general manager of China Great Wall Finance Company（北京長城財務公司）since October 2000.

SENIOR MANAGEMENT

Mr. Ling Chun Kwok（凌鎮國）, aged 46, has been appointed as the authorized representative, financial controller and company secretary of the Company on 15 November 2007. Mr. Ling is an associate member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Association of Chartered Certified Accountants and an associate member of Hong Kong Institute of Certified Public Accountants. He graduated from the University of Hong Kong with a degree in bachelor of accounting. Mr. Ling has over 20 years of experience in auditing, accounting, financial management and company secretarial services. He has worked in two companies listed on GEM prior to joining the Group.

Ms. Liu Nian（劉念）, aged 44, joined the Group in 1999. She is the accounting manager of one of the Beijing subsidiaries of the Group and is responsible for the Group's financial and accounting matters in China. Prior to joining the Group, she had worked in the Beijing Kuashiji Cultural Office and the Beijing Film Institute.

Management Discussion and Analysis

FINANCIAL REVIEW

For the year ended 31 December 2007, the Group's turnover decreased by approximately 70% to approximately HK$1,460,000 from approximately HK$4,788,000 because of the suspension of nationwide Nicam project organised by China Unicom (the "**Nicam Project**").

Cost of sales for the year under review decreased to approximately HK$929,000 from approximately HK$2,329,000 last year, representing a decrease of approximately 60%. The decrease was in line with the decrease in turnover during the year.

Distribution cost for the year under review decreased to approximately HK$22,000 from approximately HK$1,617,000 last year, representing a substantial decrease of approximately 99% in line with turnover.

Administrative expenses for the year under review decreased to approximately HK$7,113,000 from approximately HK$7,660,000 last year, representing a decrease of 7% as a result of reduction in the scale of operations of the subsidiaries.

Finance costs for the year under review increased to approximately HK$219,000, representing an increase of 100% as the Company issued convertible preference shares on 6 November 2007, which is amortized at an effective interest rate of 10.27% per annum.

The Group recorded a loss attributable to shareholders of the Company in the amount of approximately HK$22,567,000 as compared to the loss attributable to shareholders of the Company of approximately HK$4,972,000 last year, mainly as a result of the impairment loss in respect of goodwill on a subsidiary of approximately HK$15,931,000.

As a result, loss per share was significantly increased from HK21.1 cents for the year ended 31 December 2006 to HK63.7 cents for the year ended 31 December 2007.

LIQUIDITY AND FINANCIAL RESOURCES

The Group financed its business operations with internally generated cash flows, unsecured loans and issuing new shares and convertible preference shares. As at 31 December 2007, the cash and cash equivalents balance of the Group was approximately HK$23,695,000 (2006: HK$833,000)

The shareholders' funds of the Group amounted to approximately HK$18,452,000 as at 31 December 2007 (2006: HK$28,237,000). The Group maintained net current assets of approximately HK$17,909,000 as compared with net current liabilities of approximately HK$2,611,000 as at 31 December 2006. It has strong implication that the Group has maintained a financially sound position.

GEARING RATIO

At the balance sheet date, the Group has a moderate gearing ratio of 0.8 (2006: zero), arising from issuing convertible preference shares with a maturity of 5 years under non-current liabilities over total equity of the Group. Alternatively, the Group has a zero gearing ratio (2006: 4.1%) as calculated by net debts (i.e. total borrowings minus cash and cash equivalents) over total equity.

SEGMENTAL INFORMATION

During the year under review, 100% of the turnover of the Group (2006: 100%) was generated from the business segment of voice portal gateway facilities in communication and voice portal application software and were all derived from Mainland China. The details of segmental information are set out in note 6 to the financial statements.

EMPLOYEES

As at 31 December 2007, the Group had 14 (31 December 2006: 46) employees who were working on full-time basis. Staff costs, including directors' remuneration, of the Group for the year ended 31 December 2007 totalled approximately HK$1,599,000 (2006: HK$1,963,000), representing a decrease of 19%. Since the suspension of the Nicam project, the staff number was greatly reduced. The Group's staff costs decreased accordingly.

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

CAPITAL STRUCTURE

On 29 October 2007, upon completion of the capital re-structuring of the Company, details of which are set out in the Circular, every ten shares of HK$0.10 each in the issued share capital of the Company were consolidated into one share of HK$1.00 each, the nominal value of each share was reduced from HK$1.00 to HK$0.10 each, and the entire amount standing to the credit of the share premium account of the Company as at 30 June 2007 was cancelled. The issued share capital of the Company immediately after completion of the capital restructuring was HK$2,355,996.90 divided into 23,559,969 ordinary shares of HK$0.10 each.

On 6 November 2007, the Company issued 53,700,000 ordinary shares of HK$0.10 each in the share capital of the Company to DaHua at the price of HK$0.10 per share pursuant to a share subscription agreement entered into between the Company and DaHua on 23 August 2007, details of which are set out in the Circular.

On 6 November 2007, the Company issued 173,913,043 CP Shares of HK$0.10 each in the capital of the Company to DaHua at the price of HK$0.115 per CP Share pursuant to a subscription agreement entered into between the Company and DaHua on 23 August 2007 (as supplemented by an agreement dated 29 August 2007), details of which are set out in the Circular.

As a result, the issued share capital of the Company immediately upon completion of the above share issue and as at 31 December 2007 comprised HK$7,725,996.90 divided into 77,259,969 ordinary shares of HK$0.10 each and HK$17,391,304.30 divided into 173,913,043 CP Shares of HK$0.10 each.

SIGNIFICANT INVESTMENTS

As at 31 December 2007, the Group did not have any material investment.

MATERIAL ACQUISITIONS AND DISPOSALS/FUTURE PLANS FOR MATERIAL INVESTMENTS

There had been no material acquisitions and disposals of subsidiary during the year. At present, the Company and the Group does not have any plans for material investments or capital assets.

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

There was no charge on the Group's assets. The Group did not have any significant contingent liabilities as at 31 December 2007.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

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

The directors of the Company are pleased to present the annual report and the audited financial statements for the year ended 31 December 2007.

CHANGE OF DOMICILE OF THE COMPANY

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Company Laws of the Cayman Islands on 30 November 2000. As set out in the Circular, to facilitate the implementation of the capital restructuring of the Company, details or which are set out in the Circular and the section headed "Management Discussion and Analysis" in this report, the board of directors of the Company proposed that the Company be re-domiciled from the Cayman Islands to Bermuda by way of de-registration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda. The proposed change of domicile was approved by the shareholders of the Company in an extraordinary general meeting on 15 October 2007 and the Company was continued into Bermuda with limited liability with effect from 29 October 2007.

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

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 17 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 18.

The directors of the Company do not recommend the payment of any dividend in respect of the year ended 31 December 2007 (2006: Nil).

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on pages 59 to 60 in the annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The largest and the five largest customers account for approximately 52% (2006:100%) and 100% (2006:100%) of the Group's turnover respectively, and the largest and the five largest suppliers account for approximately 12% (2006:15%) and 34% (2006:39%) of the Group's cost of sales respectively for the year ended 31 December 2007. None of the directors, their associates or shareholders (which to the knowledge of the directors own more than 5% of the Company's issued share capital) has any interest in the customers or suppliers disclosed above.

SHARE CAPITAL

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

RESERVES

Details of movements in the reserves of the Company and the Group are set out in note 25 to the financial statements and the consolidated statement of changes in equity of the Group on page 21 respectively.

SHARE OPTIONS

No share options have been granted to the existing employees and directors by the Company during the year.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

Executive directors:

Wang Yong
Zhu Guang Bo
Dai Fan (appointed on 30 November 2007)

Independent non-executive directors:

Chan Peter Yat Tung
Feng Jue Min
Zhang Gong

In accordance with bye-law 87 of the bye-laws (the "Bye-laws") of the Company, Mr. Dai Fan will retire and, being eligible, offers himself for re-election at the forthcoming annual general meeting.

In accordance with the Bye-laws 88 of the Bye-laws, Mr. Zhu Guang Bo and Mr. Chan Peter Yat Tung will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

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

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

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the directors of the Company and the highest paid individuals of the Group are set out in notes 9 and 10 to the financial statements respectively.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2007, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the directors were as follows:

Name of director or chief executive	The Company/ name of associated corporation	Capacity/ Nature of interest	Number of Shares (Note 1)	Approximate Percentage of interest
Zhu Guang Bo	Company	Interest of controlled corporation	3,066,000 shares (each a "Share") of HK0.10 each of the Company (L) (Note 2)	3.97%
Dai Fan	Company	Beneficial owner	1,162,500 Shares (L)	1.50%
	Company	Interest of controlled corporation/Interest of spouse	227,628,043 Shares (L) (Notes 3 and 4)	294.63%
	DaHua	Beneficial owner	1 share of US$1 each (L)	50%
	DaHua	Interest of spouse	1 share of US$1 each (L) (Note 4)	50%

Notes:

1. The letter "L" represents the interests in shares or underlying shares of the Company or its associated corporation.

2. These Shares were held by World Develop Limited, a company wholly-owned by Mr. Zhu Guang Bo, an executive director.

3. These Shares comprise 53,715,000 Shares held by DaHua and 173,913,043 conversion Shares that may be allotted and issued upon conversion in full at an initial conversion price of HK$0.115 per conversion Share of the Company's unlisted CP Shares allotted and issued to DaHua pursuant to a subscription agreement entered into between the Company and DaHua on 23 August 2007 (as supplemented by an agreement dated 29 August 2007). The entire issued share capital of DaHua is equally owned by Mr. Dai Fan and his wife, Ms. Li Yijin. Details of the said agreements are more particularly set out in (i) the paragraph headed "Capital Structure" in the section headed "Management Discussion and Analysis" in this annual report and (ii) the Circular.

4. Mr. Dai Fan is the spouse of Ms. Li Yijin and is therefore deemed to be interested in these shares held by Ms. Li Yijin.

Saved as disclosed above, as at 31 December 2007, none of the directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the directors.

DIRECTORS' INTEREST IN CONTRACTS

Save for the agreements in relation to the subscription of ordinary shares and CP Shares of the Company as more particularly set out in (i) the paragraph headed "Capital Structure" in the section headed "Management Discussion and Analysis" in this annual report, (ii) the paragraph headed "Executive Directors "in the section headed "Biographical Details of the Directors and Senior Management" in this annual report and (iii) the Circular, no contract of significance, to which the Company or any of its subsidiaries was a party and in which the directors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS

Save for the agreements in relation to the subscription of ordinary shares and CP Shares of the Company as more particularly set out in (i) the paragraph headed "Capital Structure" in the section headed "Management Discussion and Analysis", (ii) the paragraph headed "Executive Directors" in the section headed "Biographical Details of the Directors and Senior Management "in this annual report and (iii) the Circular, there was no contract of significance entered into between the Group and a controlling shareholder or any of its subsidiaries.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, so far as was known to the directors of the Company, the following persons, other than the directors and chief executive of the Company, had an interest or short position in the shares and underlying shares of the Company, which were required to be recorded in the register maintained by the Company pursuant to Section 336 of the SFO:

Name of person	Capacity/ Nature of interest	Number of shares (Note 1)	Approximate Percentage of interest
Lu Wen Bin	Beneficial owner	4,439,391 shares (L)	5.76%
World Develop Limited	Beneficial owner	3,066,000 shares (L) (Note 2)	3.97%
DaHua	Beneficial owner	227,628,043 shares (L) (Note 3)	294.63%

Note:

1. The letter "L" represents the interests in shares of HK$0.10 each in the share capital of the Company or the underlying shares of the Company.

2. World Develop Limited is a company incorporated in the British Virgin Islands and is wholly and beneficially owned by Mr. Zhu Guang Bo, an executive Director.

3. These shares comprise 53,715,000 shares held by DaHua and 173,913,043 conversion shares that may be allotted and issued upon conversion in full at an initial conversion price of HK$0.115 per conversion share of the unlisted CP Shares allotted and issued to DaHua pursuant to a subscription agreement entered into between the Company and DaHua on 23 August 2007 (as supplemented by an agreement dated 29 August 2007). The entire issued share capital of DaHua is equally owned by Mr. Dai Fan and his wife, Ms. Li Yijin. Details of the said agreements are more particularly set out in (i) the paragraph headed "Capital Structure" in the section headed "Management Discussion and Analysis" in this annual report and (ii) the Circular.

REPURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

CONNECTED AND RELATED PARTY TRANSACTIONS

Connected and related party transactions represent unsecured loans from the follow related parties:–

i) Loan from Mr. Dai Fan, a substantial shareholder who became a director of the Company on 30 November 2007, increased from $2 million as at 31 December 2006 to $3 million as at 31 December 2007; and

ii) Loan from Ms. Lu Wen Bin, another shareholder of the Company, of $1 million during the year.

The loans are unsecured, non-interest bearing and have no fixed repayment terms.

Pursuant to Rule 20.65(4) of the Listing Rules, such loans constitute financial assistance to the Company which is exempted from the reporting, announcement and independent shareholders' approval requirements of the Listing Rules.

COMPETING INTERESTS

None of directors or the management shareholders (as defined in the GEM Listing Rules) of the Company or any of their respective associates (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

RETIREMENT BENEFITS SCHEMES

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws although there is no restriction against such under the laws in Bermuda.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set in the "Corporate Governance Report" section of is annual report.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, the Company has maintained a sufficient public float throughout the year ended 31 December 2007 as required under the GEM Listing Rules.

AUDITOR

On 9 October 2007, Horwath Hong Kong CPA Limited changed its name to Shu Lun Pan Horwath Hong Kong CPA Limited.

The financial statements have been audited by Shu Lun Pan Horwath Hong Kong CPA Limited who will retire and, being eligible, offer themselves for re-appointment as auditor of the Company at the forthcoming annual general meeting of the Company. A resolution will be proposed at the annual general meeting to re-appoint Shu Lun Pan Horwath Hong Kong CPA Limited as auditor of the Company.

By Order of the Board
Wang Yong
Chairman

Hong Kong, 20 March 2008

Corporate Governance Report

INTRODUCTION

The Company has complied with all the code provisions of the code (the "Code") on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules during the period under review save for the deviations from Code Provision A.2.1 as disclosed in this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its code of conduct regarding securities transactions by directors. Having made specific enquiry of all directors, the Company was not aware of any non-compliance with the required standard as set out in such code of conduct regarding securities transactions by the directors throughout the year ended 31 December 2007.

BOARD OF DIRECTORS

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

Each independent non-executive director is appointed for a term of one year, unless terminated by not less than three months prior notice in writing served by either party or under the circumstances as may be required by the Company's Bye-laws.

The Board considers that all of the independent non-executive directors are independent and has received from each of them the annual confirmation of independence required by Rule 5.09 of the GEM Listing Rules.

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

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

Regular Board meetings are held at least four times a year to approve quarterly, interim and annual results and review the business operation of the Group. Apart from those regular board meetings, Board meetings were also held to approve major or special issues including capital restructuring and share subscriptions in the Company, details of which are set out in (i) the paragraph headed "Capital Structure" in the section headed "Management Discussion and Analysis" of this report and (ii) the Circular.

The Board members for the year ended 31 December 2007 were:

Executive directors

Mr. Wang Yong *(Chairman)*
Mr. Zhu Guang Bo
Mr. Dai Fan (appointed with effect from 30 November 2007)

Independent non-executive directors

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

For the financial year ended 31 December 2007, 5 full board meetings were held. Details of the attendance of the meetings are as follows:

Directors	**Attendance**
Mr. Wang Yong	5/5
Mr. Zhu Guang Bo	5/5
Mr. Dai Fan	Note
Mr. Peter Chan Yat Tung	5/5
Mr. Feng Jue Min	5/5
Mr. Zhang Gong	5/5

Note: Mr. Dai Fan was appointed as an executive director of the Company with effect from 30 November 2007. As a result, he did not participate in any of the formal board meetings during the year.

CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the Code requires that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Prior to the appointment of Mr. Dai Fan as an executive director and the chief executive officer of the Company, which took effect on 30 November 2007, Mr. Wang Yong assumed the role of both the chairman and the chief executive officer.

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

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

With effect from 30 November 2007, Mr. Dai Fan was appointed as the chief executive officer, while Mr. Wang Yong remained as the chairman. Their roles are separated, with a clear division of responsibilities. The chairman is responsible for the leadership of the Board, ensuring its effectiveness and forsetting its agenda, taking into account any matters proposed by other directors for inclusion in the agenda. The chief executive officer is responsible for day-to-day management of the Group's business.

REMUNERATION OF DIRECTORS

The remuneration committee had been formed in 2005 pursuant to a resolution passed by the board ("Board") of directors of the Company, Following the re-domicile of the Company from Cayman Islands into Bermuda in October 2007, it was re-established pursuant to a resolution passed by the Board on 15 February 2008 and specific terms of reference were adopted. The remuneration committee comprises three independent non-executive directors, namely Mr. Feng Jue Min, Mr. Chan, Peter Yat Tung, and Mr. Zhang Gong. Mr. Feng Jue Min is the chairman of the remuneration committee.

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

For the year ended 31 December 2007 a meeting of the remuneration committee was held in December 2007. Details of the attendance of the committee members at the meeting are as follows:

Members	
Mr. Feng Jue Min	1/1
Mr. Chan Yat Tung	1/1
Mr. Zhang Gong	1/1

During the meeting, the remuneration committee of the Company considered the existing terms of appointment of existing executive directors and independent non-executive directors.

NOMINATION OF DIRECTORS

The nomination committee had been formed in 2005 pursuant to a resolution passed by the Board of the Company. Following the re-domicile of the Company from the Cayman Islands into Bermuda in October 2007, the nomination committee was re-established pursuant to a resolution passed by the Board on 15 February 2008 and specific terms of reference were adopted. The nomination committee comprised three independent non-executive directors, namely Mr. Chan Peter Yat Tung, Mr. Feng Jue Min and Mr. Zhang Gong. Mr. Zhang Gong is the chairman of the nomination committee.

The role and function of the nomination committee includes making recommendations to the Board on the appointment, reappointment, removal of directors and succession planning of directors. The nomination committee considers the skill and knowledge, qualification, general market conditions and the Company's Bye-laws in selecting and recommending candidates for directorship.

For the financial year ended 31 December 2007, a meeting of nomination committee was held in November 2007. Details of the attendance of the independent non-executive directors at the meeting are as follows:

Members	**Attendance**
Mr. Zhang Gong	1/1
Mr. Chan Peter Yat Tung	1/1
Mr. Feng Jue Min	1/1

During the meeting, the committee members unanimously approved that the appointment of Mr. Dai as an executive director and chief executive officer of the Company be recommended to the Board for approval. All existing directors shall be recommended to be retained by the Company.

Under code provisions A.4.2. of the Code and in accordance with the Company's Bye-laws, every director should be subject to retirement by rotation at least once every three years. Mr. Zhu Guang Bo and Mr. Chan Peter Yat Tung will retire, and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. Mr. Dai Fan was appointed as an executive director and chief executive officer of the Company by with effect from 30 November 2007. Pursuant to the provisions of the Bye-laws of the Company, Mr. Dai Fan will retire and being eligible, offer himself for re-election at the forthcoming annual general meeting of the Company.

AUDITORS' REMUNERATION

An amount of approximately HK$0.4 million (2006: HK$0.4 million) was charged to the Group's income statement for the year ended 31 December 2007. There was no significant non-audit service assignment undertaken by the auditors during the year.

AUDIT COMMITTEE

The Company established an audit committee on 31 July 2001. It has written terms of reference in compliance with the code provisions of the Code. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee currently comprises Mr. Chan Peter Yat Tung, Mr. Feng Jue Min and Mr. Zhang Gong who are the independent non-executive directors of the Company. The chairman of the audit committee is Mr. Chan Peter Yat Tung.

The audit committee held four meetings in 2007, which were attended by all members. The Group's unaudited quarterly and interim results and annual audited results during the year ended 31 December 2007 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure had been made.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors' responsibilities for the financial statements and the responsibilities of the external auditor to the shareholders are set out on page 17.

INTERNAL CONTROL

The Board is to recognise its overall responsibility in ensuring the system of its internal controls of the Company and for reviewing its effectiveness, implementing an effective and sound internal controls system to safeguard the interests of shareholders and the assets of the Group.

Independent Auditor's Report

Shu Lun Pan Horwath Hong Kong CPA Limited
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TO THE SHAREHOLDERS OF LINEFAN TECHNOLOGY HOLDINGS LIMITED
（藍帆科技控股有限公司）

(Incorporated in the Cayman Islands and continued into Bermuda with limited liability)

We have audited the consolidated financial statements of Linefan Technology Holdings Limited (the "Company") set out on pages 18 to 58, which comprise the consolidated and Company balance sheets as at 31 December 2007, the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the loss and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHU LUN PAN HORWATH HONG KONG CPA LIMITED
Certified Public Accountants
20 March 2008

Wei Min, Eileen Chan
Practising Certificate number P03036

Consolidated Income Statement

For the year ended 31 December 2007 (Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Revenue	5	1,460	4,788
Cost of sales		(929)	(2,329)
Gross profit		531	2,459
Other revenue	5	187	612
Distribution costs		(22)	(1,617)
Administrative expenses		(7,113)	(7,660)
Impairment loss recognised in respect of goodwill on subsidiaries	18	(15,931)	–
Operating loss		(22,348)	(6,206)
Finance costs	7	(219)	–
Loss before income tax	8	(22,567)	(6,206)
Income tax	11	–	–
Loss for the year		(22,567)	(6,206)
Attributable to:			
Equity holders of the Company		(22,567)	(4,972)
Minority interest		–	(1,234)
		(22,567)	(6,206)
Loss per share			
Basic (HK cents)	14	(63.7)	(21.1)

The accompanying notes form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2007 (Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Assets and liabilities			
Non-current assets			
Property, plant and equipment	15	3,080	5,074
Intangible assets	16	–	536
Goodwill	18	9,542	22,847
Available-for-sale investment	19	2,666	2,391
		15,288	30,848
Current assets			
Trade and other receivables, deposits and prepayments	20	1,090	1,030
Cash and cash equivalents	21	23,695	833
		24,785	1,863
Current liabilities			
Trade and other payables and accruals	22	2,876	2,474
Unsecured loans	27(a)	4,000	2,000
		6,876	4,474
Net current assets/(liabilities)		17,909	(2,611)
Total assets less current liabilities		33,197	28,237
Non-current liabilities			
Convertible preference shares	24	14,745	–
Net assets		18,452	28,237
Equity			
Share capital	23	7,726	23,560
Reserves		10,726	4,677
Equity attributable to equity holders of the Company		18,452	28,237
Minority interest		–	–
Total equity		18,452	28,237

These financial statements were approved and authorised for issue by the Board of Directors on 20 March 2008 and are signed on its behalf by:

Wang Yong
Chairman

Dai Fan
Director

The accompanying notes form part of these financial statements.

Balance Sheet

At 31 December 2007 (Expressed in Hong Kong dollars)

	Note	2007 $'000	2006 $'000
Assets and liabilities			
Non-current assets			
Interests in subsidiaries	17	**33,501**	34,100
Current assets			
Other receivables, deposits and prepayments	20	**100**	37
Cash and cash equivalents	21	**23,374**	6
		23,474	43
Current liabilities			
Other payables and accruals	22	**513**	449
Unsecured loans	27(a)	**4,000**	2,000
		4,513	2,449
Net current assets/(liabilities)		**18,961**	(2,406)
Total assets less current liabilities		**52,462**	31,694
Non-current liabilities			
Convertible preference shares	24	**14,745**	–
Net assets		**37,717**	31,694
Equity			
Share capital	23	**7,726**	23,560
Reserves	25	**29,991**	8,134
Total equity		**37,717**	31,694

These financial statements were approved and authorised for issue by the Board of Directors on 20 March 2008 and are signed on its behalf by:

Wang Yong
Chairman

Dai Fan
Director

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007 (Expressed in Hong Kong dollars)

	Share capital (Note 23) $'000	Share premium $'000	Capital reserve (Note 25) $'000	Equity component of convertible preference shares (Note 24) $'000	Special reserve (Note 25) $'000	PRC statutory reserve $'000	Foreign currency translation reserve $'000	Accumulated losses $'000	Attributable to equity holders of the Company $'000	Minority interest $'000	Total $'000
Balance at 1 January 2006	23,560	54,459	3,970	–	3,324	3,029	(84)	(55,006)	33,252	3,521	36,773
Net expense recognised directly in equity – exchange difference arising on translation of PRC operations	–	–	–	–	–	–	(43)	–	(43)	–	(43)
Loss for the year	–	–	–	–	–	–	–	(4,972)	(4,972)	(1,234)	(6,206)
Total recognised expense for the year	–	–	–	–	–	–	(43)	(4,972)	(5,015)	(1,234)	(6,249)
Elimination arising on change of status of a subsidiary	–	–	–	–	–	–	–	–	–	(2,287)	(2,287)
Balance at 31 December 2006	23,560	54,459	3,970	–	3,324	3,029	(127)	(59,978)	28,237	–	28,237
Net expense recognised directly in equity – exchange difference arising on translation of PRC operations	–	–	–	–	–	–	3,291	–	3,291	–	3,291
Loss for the year	–	–	–	–	–	–	–	(22,567)	(22,567)	–	(22,567)
Total recognised expense for the year	–	–	–	–	–	–	3,291	(22,567)	(19,276)	–	(19,276)
Issue of convertible preference shares	–	–	–	4,121	–	–	–	–	4,121	–	4,121
Issue of new shares	5,370	–	–	–	–	–	–	–	5,370	–	5,370
Capital restructuring	(21,204)	(54,459)	–	–	2,702	–	–	72,961	–	–	–
Balance at 31 December 2007	**7,726**	**–**	**3,970**	**4,121**	**6,026**	**3,029**	**3,164**	**(9,584)**	**18,452**	**–**	**18,452**

The accompanying notes form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007 (Expressed in Hong Kong dollars)

	2007 $'000	2006 $'000
Operating activities		
Loss before income tax	**(22,567)**	(6,206)
Adjustments for:		
Allowances for doubtful debts	**–**	25
Depreciation	**2,417**	2,940
Amortisation of intangible assets	**567**	804
Finance costs	**219**	–
Impairment loss recognsied on goodwill	**15,931**	–
Property, plant and equipment written off	**20**	6
Operating cash flows before working capital changes	**(3,413)**	(2,431)
Decrease in inventories	**–**	11
(Increase)/decrease in trade and other receivables, deposits and prepayments	**(60)**	450
Increase/(decrease) in trade and other payables and accruals	**402**	(1,001)
Effect of foreign exchange differences	**(121)**	(204)
Cash used in operations	**(3,192)**	(3,175)
Interest income	**(1)**	–
Net cash used in operating activities	**(3,193)**	(3,175)
Investing activities		
Interest received	**1**	–
Purchase of property, plant and equipment	**(8)**	–
Net outflow of cash equivalents in respect of change of status of a subsidiary	**–**	(7)
Net cash used in investing activities	**(7)**	(7)
Financing activities		
New loans – unsecured	**2,000**	2,000
Proceeds from issue of new shares	**5,370**	–
Proceeds from issue of convertible preference shares	**20,000**	–
Expenses on issue of convertible preference shares	**(1,353)**	–
Net cash generated from financing activities	**26,017**	2,000
Net increase/(decrease) in cash and cash activities	**22,817**	(1,182)
Cash and cash equivalents at beginning of the year	**833**	2,014
Effect of foreign exchange rates changes	**45**	1
Cash and cash equivalents at end of the year	**23,695**	833
Analysis of the balance of cash and cash equivalents		
Bank balances and cash	**23,695**	833

The accompanying notes form part of these financial statements.

(Expressed in Hong Kong dollars)

1. ORGANISATION AND OPERATIONS

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

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

As set out in the circular ("Circular") of the Company dated 21 September 2007, to facilitate the implementation of the capital restructuring of the Company, the board of Directors proposed that the Company be re-domiciled from the Cayman Islands into Bermuda by way of de-registration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda. The proposed change of domicile was approved by the shareholders of the Company on 15 October 2007 and the Company was continued into Bermuda with limited liability with effect from 29 October 2007.

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

2. ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the Group has adopted all of the new and revised 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 that are relevant to its operations and effective for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in any substantial changes to the Group's accounting policies.

The impact of the adoption of HKFRS 7 "Financial Instruments: Disclosure" and the HKAS 1 Amendment "Capital Disclosure" has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital.

At the date of authorisation of these financial statements, the following HKFRSs were in issue but not yet effective. The Group has not early adopted any of these new and revised HKFRSs that are not yet effective for the current accounting period. The directors of the Company are currently assessing the impact of these HKFRSs but are not yet in a position to state whether they would have material impact on the results and the financial position of the Group.

HKAS 1 (Revised)	Presentation of financial statements[1]
HKAS 23 (Revised)	Borrowing costs[1]
HKFRS 8	Operating segments[1]
HK (IFRIC) – INT 11	Group and treasury share transactions[2]
HK (IFRIC) – INT 12	Service concession arrangements[3]
HK (IFRIC) – INT 13	Customer loyalty programmes[4]
HK (IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction[3]

1. *Effective for annual periods beginning on or after 1 January 2009*
2. *Effective for annual periods beginning on or after 1 March 2007*
3. *Effective for annual periods beginning on or after 1 January 2008*
4. *Effective for annual periods beginning on or after 1 July 2008*

3. BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, 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 GEM Listing Rules.

(b) Basis of preparation of financial statements

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

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

(c) Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December 2007.

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

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

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

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

3. BASIS OF PREPARATION (continued)

d) Business combinations

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

Goodwill arising on acquisition is recognised in accordance with the policy set out in note 3(f) below.

(e) Subsidiaries

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

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

(f) Goodwill

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

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

Where the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

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

3. BASIS OF PREPARATION (continued)

(g) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to profit or loss in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the asset.

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

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(h) Intangible assets

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

(i) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

3. BASIS OF PREPARATION (continued)

(j) Financial assets

(i) Loans and receivables

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured initially at fair value and subsequently at amortised cost using the effective interest method, less any impairment losses. Interest income is recognised by applying the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investment revaluation reserve is included in profit or loss for the period.

Dividends on available-for-sale financial assets are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of available-for-sale financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses.

(iii) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

3. BASIS OF PREPARATION (continued)

(j) Financial assets (continued)

(iii) Impairment of financial assets (continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For trade and other current receivables and other financial assets carried at amortised cost, 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, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  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 would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables included in trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

3. BASIS OF PREPARATION (continued)

(j) Financial assets (continued)

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(k) Financial liabilities and equity instrument issued by the Group

(i) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

(ii) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

(iii) Compound instruments

The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

(iv) Financial liabilities

Financial liabilities including borrowings, are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

(v) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

3. BASIS OF PREPARATION (continued)

(l) Cash and cash equivalents

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

(m) Revenue recognition

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

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

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

(n) Taxation

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

(i) Current tax

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

(ii) Deferred tax

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

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

3. BASIS OF PREPARATION (continued)

(n) Taxation (continued)

(ii) Deferred tax (continued)

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

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

(o) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(p) Foreign currencies

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

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

3. BASIS OF PREPARATION (continued)

(p) Foreign currencies (continued)

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

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

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

(q) Related parties

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

3. BASIS OF PREPARATION (continued)

(r) Research and development expenditure

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

No development costs have been deferred during the year.

(s) Operating leases

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

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

(t) Employees' benefits

(i) Short term benefits

Salaries, annual bonuses, paid annual leaves 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 value.

(ii) Retirement benefit schemes

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

3. BASIS OF PREPARATION (continued)

(t) Employees' benefits (continued)

(iii) Share-based payment

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the capital reserve.

(u) Segment reporting

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

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

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

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing the consolidated financial statements, management is required to exercise significant judgement in the selection and application of the Group's accounting policies. In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results 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.

(a) Critical judgements in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements apart from those involving estimation as discussed below, which have the most significant effect on the amounts recognised in the financial statements.

Impairment of assets

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

(b) Key sources of estimation uncertainty

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

Allowance for doubtful debts

Allowance for doubtful debts is made based on assessment of the recoverability of trade receivables and other receivables. The identification of doubtful debts requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of trade receivables and other receivables and doubtful debt expenses/written back in the period in which the estimate has been changed.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make appropriate key assumptions in estimating the expected future cash flows from the cash-generating unit and to choose suitable discount rate and growth rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2007 was approximately $9,542,000 (2006: $22,847,000).

5. REVENUE AND OTHER REVENUE

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

	2007 $'000	2006 $'000
Revenue:		
Voice portal gateway facilities in communication and voice portal application software	1,460	4,788
Other revenue:		
Subcontracting fees	187	177
Government subsidies	–	267
Others	–	168
	187	612
	1,647	5,400

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

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

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

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

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

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments

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

	KM Systems		Voice portal		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Segment revenue:						
Revenue	**–**	–	**1,460**	4,788	**1,460**	4,788
Segment results	**(2,965)**	(2,882)	**(849)**	(1,075)	**(3,814)**	(3,957)
Unallocated corporate expenses					**(18,534)**	(2,249)
Operating loss					**(22,348)**	(6,206)
Finance costs					**(219)**	–
Loss for the year					**(22,567)**	(6,206)
Assets:						
Segment assets	**2,756**	5,109	**13,499**	27,158	**16,255**	32,267
Unallocated corporate assets					**23,818**	444
Consolidated total assets					**40,073**	32,711
Liabilities:						
Segment liabilities	**834**	243	**2,043**	1,724	**2,877**	1,967
Unallocated corporate liabilities					**18,744**	2,507
Consolidated total liabilities					**21,621**	4,474
Other information:						
Allowance for doubtful debts	**–**	–	**–**	25	**–**	25
Depreciation	**2,176**	2,113	**241**	827	**2,417**	2,940
Amortisation of intangible assets	**559**	792	**8**	12	**567**	804
Impairment loss on goodwill	**–**	**–**	**15,931**	–	**15,931**	–

(Expressed in Hong Kong dollars)

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographic segments

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

	Hong Kong		PRC (other than Hong Kong)		Consolidated	
	2007	2006	2007	2006	2007	2006
	$'000	$'000	$'000	$'000	$'000	$'000
External sales	–	–	1,460	4,788	1,460	4,788
Operating loss	–	–	(22,348)	(6,206)	(22,348)	(6,206)
Finance costs					(219)	–
Loss for the year					(22,567)	(6,206)
Assets:						
Segment assets	23,818	444	6,713	9,420	30,531	9,864
Unallocated assets					9,542	22,847
					40,073	32,711
Other information:						
Impairment loss on goodwill	–	–	15,931	–	15,931	–

7. FINANCE COSTS

	2007	2006
	$'000	$'000
Convertible preference shares interest (note 24)	219	–

8. LOSS BEFORE INCOME TAX

	2007 $'000	2006 $'000
Loss before income tax is arrived at after charging:		
Directors' remuneration:–		
Fees	93	144
Other emoluments	–	15
Retirement benefits scheme contributions	–	14
Salaries and other staff costs	1,321	1,533
Retirement benefits scheme contributions (excluding directors)	185	257
	1,599	1,963
Auditor's remuneration	444	399
Bad and doubtful debts written off	41	–
Allowance for doubtful debts	–	25
Depreciation	2,417	2,940
Amortisation of intangible assets (included in administrative expenses)	567	804
Property, plant and equipment written off	20	6

9. DIRECTORS' REMUNERATION

	Fees $'000	Salaries and other benefits $'000	Retirement benefits scheme contributions $'000	2007 Total $'000
Executive directors:				
Ma Gui Fang (resigned on 1 July 2006)	–	–	–	–
Independent non-executive directors:				
Zhang Gong	31	–	–	31
Chan Yat Tung, Peter	31	–	–	31
Feng Jue Min	31	–	–	31
	93	–	–	93

	Fees $'000	Salaries and other benefits $'000	Retirement benefits scheme contributions $'000	2006 Total $'000
Executive directors:				
Ma Gui Fang (resigned on 1 July 2006)	–	15	14	29
Independent non-executive directors:				
Zhang Gong	48	–	–	48
Chan Yat Tung, Peter	48	–	–	48
Feng Jue Min	48	–	–	48
	144	15	14	173

The emoluments of each of the above directors were less than $1,000,000 during each of the years ended 31 December 2007 and 2006. No director waived any emoluments for both years.

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

10. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group in 2006, one was a director of the Company whose emoluments are included in the disclosure in note 9 above. The emoluments of the five highest paid non-director individuals in 2007 and the remaining four individuals in 2006 were as follows:–

	2007 **$'000**	2006 $'000
Employees:		
Basic salaries and allowances	**928**	917
Retirement benefit scheme contributions	**54**	82
	982	999

The emoluments of each of the above employees were less than $1,000,000 during each of the years ended 31 December 2007 and 2006.

11. INCOME TAX

The Group's primary operations are carried out in the PRC. The tax rate for the years ended 31 December 2007 and 2006 applicable to the Group is 33%, except for Unlimited Business Opportunity Communications Technology Company Limited, a PRC operating subsidiary of the Group, which was officially recognised as Hi-Tech Enterprise by the Beijing Municipal Government in November 2001, and therefore is eligible to receive preferential treatment in form of a concession tax rate of 15%. It was also eligible for full exemption from income tax for its first three years of operations, i.e. 2002 to 2004. All of the PRC subsidiaries of the Group have incurred losses for the year and no provisions for PRC income tax are required. These losses can be carried forward to offset against future profits for a period of five years.

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

Income tax for the year can be reconciled to the accounting loss as follows:

	2007 **$'000**	2006 $'000
Loss before income tax	**(22,567)**	(6,206)
Tax at the domestic income tax rate of 33% (2006: 33%)	**(7,447)**	(2,048)
Tax effect of expenses not deductible in determining taxable profit	**5,296**	117
Effect of different tax rates and preferential treatments	**608**	367
Tax effect of tax losses not recognised	**1,543**	1,564
Tax expense for the year	**–**	–

At the balance sheet date, the Group has unexpired tax losses of approximately $22,846,000 (2006: $17,970,000) available to offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

11. INCOME TAX (continued)

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress of the PRC promulgated the Corporate Income Tax Law of the PRC ("the New Tax Law"), which became effective on 1 January 2008. Further, on 6 December 2007, the State Council released the Implementation Rules to the Corporate Income Tax Law of the PRC.

According to the New Tax Law, from 1 January 2008, the standard corporate income tax rate for enterprises in the PRC will be reduced from 33% to 25%. However, an "Encouraged Hi-Tech Enterprise" will continue to entitle to a reduced corporate income tax rate of 15%.

12. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company includes a loss of $3,468,000 (2006: $901,000) which has been dealt with in the financial statements of the Company.

13. DIVIDEND

No dividend was paid or proposed during 2007 and 2006, nor has any dividend been proposed since the balance sheet date.

14. LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2007 $'000	2006 $'000
Loss attributable to equity holders of the Company	(22,567)	(4,972)

	2007	2006 (Restated)
Number of issued ordinary shares at 1 January	235,599,690	235,599,690
Effect of share consolidation	(212,039,721)	(212,039,721)
Effect of shares issued in November 2007	11,853,584	–
Weighted average number of ordinary shares at 31 December	35,413,553	23,559,969
Basic loss per share (HK cents)	(63.7)	(21.1)

Basic loss per share for the year ended 31 December 2006 is restated to take into effect the capital reorganisation issue during the year, details of which are set out in the Circular.

No diluted loss per share amount for the years ended 31 December 2007 and 2006 has been presented as the convertible preference shares issued during the year had an anti-dilutive effect on the basic loss per share for the year and the Company had no dilutive potential shares during the year ended 31 December 2006.

15. PROPERTY, PLANT AND EQUIPMENT

The Group

	Leasehold Improvements $'000	Furniture, Fixtures and Equipment $'000	Computer, Network and Related Equipment $'000	Motor Vehicle $'000	Total $'000
Cost:					
At 1 January 2006	122	791	23,797	364	25,074
Exchange adjustments	1	–	139	–	140
Change of status from a subsidiary to available-for-sale investment	–	(16)	(7,575)	–	(7,591)
Disposals	–	–	(90)	–	(90)
At 31 December 2006	123	775	16,271	364	17,533
Exchange adjustments	11	67	1,870	43	1,991
Additions	–	8	–	–	8
Disposals	–	(43)	(29)	–	(72)
At 31 December 2007	**134**	**807**	**18,112**	**407**	**19,460**
Accumulated Depreciation:					
At 1 January 2006	30	688	12,092	364	13,174
Exchange adjustments	–	2	42	–	44
Charge for the year	24	61	2,855	–	2,940
Change of status from a subsidiary to available-for-sale investment	–	(3)	(3,612)	–	(3,615)
Eliminated on disposal	–	–	(84)	–	(84)
At 31 December 2006	54	748	11,293	364	12,459
Exchange adjustments	6	65	1,442	43	1,556
Charge for the year	26	27	2,364	–	2,417
Eliminated on disposal	–	(33)	(19)	–	(52)
At 31 December 2007	**86**	**807**	**15,080**	**407**	**16,380**
Net Book Value:					
At 31 December 2007	**48**	**–**	**3,032**	**–**	**3,080**
At 31 December 2006	69	27	4,978	–	5,074

16. INTANGIBLE ASSETS

The Group

	Computer Software $'000
Cost:	
At 1 January 2006	6,977
Exchange adjustments	22
At 31 December 2006	6,999
Exchange adjustments	805
At 31 December 2007	**7,804**
Accumulated Amortisation:	
At 1 January 2006	5,640
Exchange adjustments	19
Charge for the year	804
At 31 December 2006	6,463
Exchange adjustments	774
Charge for the year	567
At 31 December 2007	**7,804**
Net Book Value:	
At 31 December 2007	**–**
At 31 December 2006	536

17. INTERESTS IN SUBSIDIARIES

	The Company	
	2007 $'000	2006 $'000
Unlisted shares, at cost	**26,074**	26,074
Amount due from a subsidiary	**64,227**	63,026
	90,301	89,100
Less: impairment loss	**(56,800)**	(55,000)
	33,501	34,100

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

Notes to Financial Statements

(Expressed in Hong Kong dollars)

17. INTERESTS IN SUBSIDIARIES (continued)

Details of the subsidiaries of the Company as at 31 December 2007 are as follows:

Name of the Company	Legal form of entity	Place of incorporation /establishment	Issued and fully paid share capital/ registered capital	Attributable Equity interest of the Company directly or indirectly held	Principal activities
Chinsesroad Incorporated	Limited liability	The British Virgin Islands ("BVI")	US$67,200	100%	Investment holding
Beijing Linefan Zhihui Technology Company Limited (formerly known as Beijing Hangfan Technology Company Limited) (北京藍帆智慧科技有限公司)	Equity joint venture ("EJV")	PRC	RMB1,000,000	100%	Application software provider of non-structural Knowledge Integration systems and services
Beijing Linefan Technology Company Limited (北京藍帆科技有限公司)	EJV	PRC	US$500,000	100%	Sale, development and implementation of non-structural knowledge integration systems and KM related network application system and technology
Beijing Wellpay Software Technology Company Limited (北京威派軟件技術有限公司)	EJV	PRC	US$500,000	100%	Sale, development and implementation of non-structural knowledge integration systems and KM related network application and services
Unlimited Business Opportunity Communication Technology Company Limited (北京無限商機通信技術有限公司)	EJV	PRC	RMB35,000,000	51.43%	Provision of voice search engine portal

Note:

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

18. GOODWILL

The Group

	$'000
Cost:	
At 1 January 2006	22,777
Exchange adjustments	70
At 31 December 2006	22,847
Exchange adjustments	2,626
At 31 December 2007	**25,473**
Impairment:	
At 1 January 2006	–
Impairment loss recognised	–
At 31 December 2006	–
Impairment loss recognised	15,931
At 31 December 2007	**15,931**
Carrying Amounts:	
At 31 December 2007	**9,542**
At 31 December 2006	22,847

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

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The Group assesses the value of goodwill by reference to a valuation report prepared by an independent valuer dated 5 March 2008. The valuation was prepared using the value in use model and was determined from the cash flow projection based on the voice portal business financial budgets approved by management covering a period of five-years. The discount rate applied to the cash flow projection is 9.57% and cash flows beyond the five year period are extrapolated using a zero growth rate. Management estimated the budgeted gross margin based on the past performance and their expectations for market development.

Based on the valuation report, the management considers that the carrying value of goodwill as at 31 December 2007 was impaired by approximately $15,931,000 (2006: Nil).

19. AVAILABLE-FOR-SALE INVESTMENT

	The Group	
	2007	2006
	$'000	$'000
At 1 January	2,391	–
Unlisted investment – cost	–	2,391
Exchange adjustments	275	–
At 31 December	2,666	2,391

Pursuant to an agreement dated 28 February 2006, the Group agreed with an independent party whereby the independent party assumes full operational control of Ha Er Bin Runke Communication Technology Company Limited ("Runke"), a former subsidiary for a term of 3 years, in return for a fixed fee payable to the Group. The fee was fixed at RMB 200,000 for the first year with an increment of 10% per annum for each of the subsequent two years. In addition, at the date of termination of the agreement, the independent party will receive a compensation calculated at 40% of the trade receivable balance as of that date ("Old Agreement").

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

On 27 March 2007, Runke changed its name to Harbin Dingming Shiji Communication and Technology Limited ("Dingming Shiji"). In August 2007, the Old Agreement was terminated. On 20 August 2007, the Group entered into another agreement with another independent party, pursuant to which the independent party assumes full operational control of Dingming Shiji for a term of 3 years, commencing from 1 September 2007. In return, a fixed fee of RMB140,000 is payable to the Group for the first year with an increment of 10% per annum for each of the subsequent two years. In addition, at the date of termination of the agreement, the independent party will also receive a compensation calculated at 40% of the trade receivable balance as of that date.

20. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	The Group		The Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Trade receivables	651	681	–	–
Less: allowance for doubtful debts	–	–	–	–
	651	681	–	–
Other receivables	174	–	–	
Deposits and prepayments	265	349	100	37
	1,090	1,030	100	37

20. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (continued)

(i) The credit period to the Group's trade receivables generally ranges from 90 days to 183 days.

(ii) Included in trade and other receivables, deposits and prepayments are ageing analysis of trade receivables as at the balance sheet date, based on the invoice date, as follows:

	The Group	
	2007	2006
	$'000	$'000
0 to 90 days	**639**	470
91 to 180 days	**12**	162
181 to 365 days	**–**	49
	651	681

(iii) The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group	
	2007	2006
	$'000	$'000
At the beginning of year	**25**	–
Impairment loss recognised	**–**	25
Exchange adjustments	**3**	–
At end of year	**28**	25

At 31 December 2007, the Group's other receivable of $28,000 (2006: $25,000) was individually determined to be impaired. The individually impaired receivables related to debtors that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowance for doubtful debts of $28,000 (2006: $25,000) was recognised. The Group does not held any collateral over these balances.

(iv) The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	The Group	
	2007	2006
	$'000	$'000
Neither past due nor impaired	**651**	470
Less than 1 months past due	**–**	121
1 to 3 months past due	**–**	90
	–	211
	651	681

20. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (continued)

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there have not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

21. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise bank balances and cash held by the Group and the Company and short-term bank deposits with an original maturity of three months or less.

Bank balances earn interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amount of the cash and cash equivalents approximates their fair value.

22. TRADE AND OTHER PAYABLES AND ACCRUALS

	The Group		The Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Trade payables	**848**	842	**–**	–
Other payables and accruals	**2,028**	1,632	**513**	449
	2,876	2,474	**513**	449

Included in trade and other payables and accruals are ageing analysis of trade payables at the balance sheet date, as follow:

	The Group	
	2007	2006
	$'000	$'000
0 to 60 days	**29**	90
61 to 120 days	**22**	87
121 to 365 days	**73**	116
Over 1 year	**724**	549
	848	842

23. SHARE CAPITAL

	Nominal value per share $	Number of shares	Amount $'000
Authorised:			
At 31 December 2004, 2005, 2006 and 1 January 2007	0.1	500,000,000	50,000
Creation of CP Shares (note (b))	0.1	(173,913,043)	(17,391)
At 31 December 2007 (note (a)(iv))	**0.1**	**326,086,957**	**32,609**
Issued and fully paid:			
At 31 December 2005 and 2006	0.1	235,599,690	23,560
Effect of Share Consolidation (note (a)(i))		(212,039,721)	(21,204)
Issue of New Shares (note (c))	0.1	53,700,000	5,370
At 31 December 2007	**0.1**	**77,259,969**	**7,726**

Note:

As announced by the Company on 30 August 2007, the Company proposed to effect a capital restructuring ("Capital Restructuring") and connected transactions in relation to subscription of New Shares ("New Shares Subscription") and Convertible Preference Shares ("CP Shares Subscription") by DaHua International (Group) Limited ("DaHua"). Details of the Capital Restructuring and share subscriptions are set out in the Circular.

At the extraordinary general meeting of the Company held on 15 October 2007,

(a) Ordinary and special resolutions approving the Capital Restructuring were passed and the following capital reorganisation became effective on 29 October 2007:

 (i) a share consolidation pursuant to which every ten ordinary shares of $0.10 each in the issued share capital of the Company were consolidated into one consolidated share of $1.00 each ("Share Consolidation");

 (ii) a capital reduction of approximately $21.2 million which involved a reduction of the nominal value of each consolidated share then in issue from $1.00 to $0.10 by cancelling the paid-up capital to the extent of $0.90 on each of such consolidated share ("Capital Reduction");

 (iii) the cancellation of the entire amount of approximately $54.5 million standing to the credit of the share premium account ("Share Premium Cancellation");

 (iv) the credit arising from the Capital Reduction and Share Premium Cancellation of the Company, which amounted to approximately $75.7 million was transferred to the contributed surplus account of the Company to set off against the accumulated losses of the Company as at 30 June 2007; and

(b) A special resolution was passed such that upon the Capital Reduction becoming effective, 173,913,043 new convertible preference shares ("CP Shares") of $0.10 each be created in the capital of the Company such that the authorised share capital of the Company of $50,000,000 shall comprise $32,608,695.70 divided into 326,086,957 ordinary shares of $0.10 each and $17,391,304.30 divided into 173,913,043 CP Shares; and

(c) An ordinary resolution was passed to approve the New Shares Subscription and allotment to DaHua of 53,700,000 new shares with par value of $0.10 per share; and

(d) An ordinary resolution was passed to approve the CP Shares Subscription by DaHua and the allotment to DaHua of 173,913,043 CP Shares.

24. CONVERTIBLE PREFERENCE SHARES

	Number of shares	Amount $'000
Authorised:		
At 6 November 2007 and 31 December 2007 (Note 23(b))	173,913,043	17,391
Issued and fully paid:		
Issued on 6 November 2007 and balance at 31 December 2007	173,913,043	17,391

Pursuant to the passing of the ordinary resolution as set out in note 23(d) above, 173,913,043 CP Shares with nominal value of $0.10 each were issued at a total cash consideration of $20 million on 6 November 2007.

The principal terms of the CP Shares include the following:

(i) Dividend

No dividends shall accrue or be paid upon the CP Shares until 31 December 2007. An accrued dividend at the rate of 3% of par value will be paid annually.

(ii) Capital

On a return of capital on liquidation or otherwise (but not on conversion), the holders of the CP Shares ("CP Shareholders") shall have the right to be paid, in priority to any return of assets in respect of any other class of shares in the capital of the Company up to an amount equal to the aggregate notional value of $20 million (equivalent to approximately $0.115 per CP Share).

(iii) Redemption

The Company shall redeem all of the CP Shares at par plus the accrued and unpaid dividends at the maturity date falling five years from the date of allotment and issue of CP Shares.

(iv) Conversion rights

Each CP Shareholder shall have the right to convert at any time any CP Share, which shall be deemed to have a value equal to the notional value thereof, into ordinary shares at the conversion price of $0.115 per share, subject to adjustment provisions which are standard terms for convertible securities of similar type.

Each CP Shareholder shall exercise the conversion right attaching to the CP Shares only if it has been confirmed by the Company in writing that the allotment and issue of the ordinary shares to such CP Shareholder and the Company will only issue the ordinary shares pursuant to an exercise of such conversion right if such issue will not cause the Company to be in breach of the minimum public float requirement of not less than 25% as stipulated under Rule 11.23 of the GEM Listing Rules.

24. CONVERTIBLE PREFERENCE SHARES (continued)

(v) Transferability

The CP Shares may be freely transferable subject to the provision of the Company's Bye-laws relating to the transfer of shares and share certificates and provided that no transfer of a CP Share shall be effected within a period of six months commencing on the date of issue of such CP Share.

(vi) Voting

The CP Shareholders shall not have the right to receive notice of, or to attend and vote at, general meetings of the Company, unless a resolution is to be proposed at a general meeting of the Company for winding up the Company or which if passed would vary or abrogate the rights or privileges of the CP Shareholders.

The net proceeds received from the issue of the CP Shares contain two components,

(a) Liability component represents the present value of the contractually determined stream of future cash flows discounted at the effective interest rate of 10.27% per annum.

(b) Equity component represents the difference between the proceeds of issue of the CP Shares and the fair value assigned to the liability component.

Movements of the CP Shares are as follows:

	Liability Component $'000	Equity Component $'000 (note 25)	Total $'000
CP Shares issued on 6 November 2007	15,580	4,420	20,000
Expenses on issue	(1,054)	(299)	(1,353)
Net proceeds	14,526	4,121	18,647
Interest charged for the period from 6 November to 31 December 2007	219	–	219
At 31 December 2007	**14,745**	**4,121**	**18,866**

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25. SHARE PREMIUM AND RESERVES

The Group

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

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

The Company

	Share premium $'000	Contributed surplus $'000	Equity component of convertible preference shares $'000 (note 24)	Accumulated losses $'000	Total $'000
At 1 January 2006	54,459	26,067	–	(71,491)	9,035
Loss for the year	–	–	–	(901)	(901)
At 31 December 2006	54,459	26,067	–	(72,392)	8,134
Share premium cancellation	(54,459)	–	–	54,459	–
Effect of Capital Restructuring	–	2,702	–	18,502	21,204
Issue of CP Shares	–	–	4,121	–	4,121
Loss for the year	–	–	–	(3,468)	(3,468)
At 31 December 2007	**–**	**28,769**	**4,121**	**(2,899)**	**29,991**

The contributed surplus of the Company arose from a group reorganisation in 2002. The balance represents the difference between the nominal amount of the Company's shares issued and the consolidated shareholders' funds of Chineseroad Incorporated. During the year, the Company has implemented the Capital Restructuring as detailed in note 23 to the financial statements and the increase arose from the set off of the accumulated losses of the Company as at 30 June 2007.

The Company's reserves available for distribution to shareholders as at 31 December 2007 represent the aggregate of share premium, contributed surplus and accumulated losses and amounted to approximately $25,870,000 (2006: $8,134,000).

26. SHARE OPTIONS

The Company has adopted a share option scheme on 24 January 2002 (the "Share Option Scheme"). The purpose of the Share Option Scheme is to enable the Company to grant options to selected employees to subscribe for shares of the Company as incentives or rewards for their contributions to the Group. The board of directors of the Company may, at its discretion, invite any full-time or part-time employees of the Company or any member of the Group, including any executive and non-executive directors, advisors, consultants of the Company or any subsidiary of the Company to take up options to subscribe for shares of the Company. The total number of shares of the Company available for issue under the Share Option Scheme was initially 10% of the issued share capital as at the date of adoption of the Share Option Scheme.

An ordinary resolution was passed by the shareholders of the Company at the annual general meeting held on 23 April 2003 approving the renewal of the 10% general limit under the Share Option Scheme. The refreshed 10% general scheme limit had been fully utilised in 2004.

The total number of shares of the Company available for issue under the Share Option Scheme and any other share option scheme adopted by the Group (including both exercised and outstanding options) in any 12 – month period must not exceed 1% of the shares of the Company in issue from time to time. An option may be exercised at any time during a period to be determined and notified by the Board to each participant. Upon acceptance of the option, the employee should pay $1.00 to the Company by way of consideration for the grant. The subscription price for the shares of the Company will be a price to be determined by the Board and will be the highest of (i) the closing price of the shares on the GEM as stated on the Stock Exchange's daily quotations sheet on the date of granting of the options; (ii) the average closing price of the shares on the GEM as stated on the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of granting of the options; and (iii) the nominal value of a share.

No share option granted under the Share Option Scheme remained outstanding as at 1 January 2007 and 31 December 2007. No share option has been granted by the Company during 2006 and 2007.

27. RELATED PARTY TRANSACTIONS

a. Unsecured loans represent loans from the following related parties:–

i) Loan from Mr. Dai Fan, a substantial shareholder who became a director of the Company on 30 November 2007, increased from $2 million as at 31 December 2006 to $3 million as at 31 December 2007; and

ii) Loan from Ms. Lu Wen Bin, another shareholder of the Company, of $1 million during the year.

The loans are unsecured, non-interest bearing and have no fixed repayment terms.

b. Compensation to key management personnel

Compensation to key management personnel for 2007 disclosed below comprised non directors only. The remuneration of one executive director and other members of key management for 2006 is also disclosed below:

	2007 $'000	2006 $'000
Salaries and other benefits	131	66
Retirement benefits scheme contributions	28	28
	159	94

28. OPERATING LEASE COMMITMENT

	The Group	
	2007 $'000	2006 $'000
Minimum lease payments paid under operating leases in respect of office premises during the year	521	683

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

	The Group	
	2007 $'000	2006 $'000
Within one year	524	466
In the second to fifth year inclusive	42	–
	566	466

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

29. RETIREMENT BENEFITS SCHEMES

The Company's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participated in retirement benefits operated by the relevant local government authorities. The Group is required to make contributions on behalf of employees who are registered permanent residents in the PRC. The Group's contributions for the year ended 31 December 2007 were based on 20% (2006: 20%) of the average wages of workers in Beijing, the city where the Group's PRC' s staff are located, and amounted to approximately $99,000 (2006: $247,000).

The Group's Hong Kong office implemented a Mandatory Provident Fund Scheme (the "MPF") in compliance with the applicable regulations in Hong Kong for its staff at the end of 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. The Group's contribution to the MPF amounted to approximately $26,000 (2006: $24,000).

30. CAPITAL RISK MANAGEMENT

The Group's objective of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The capital structure of the Group consists of debts, which includes the liability component of CP Shares and unsecured loans disclosed in notes 24 and 27 respectively and cash and cash equivalents. Equity attributable to equity holders of the Company, comprising share capital, reserves and retained earnings, are disclosed in notes 23 and 25 respectively.

The Group's management reviews its capital structure on a regular basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

The gearing ratio at the year end was as follows:

	2007 $'000	2006 $'000
Debt		
Unsecured loans	4,000	2,000
Convertible preference shares	14,745	–
Total debts	18,745	2,000
Less: Cash and cash equivalents	(23,695)	(833)
Net (asset)/debt	(4,950)	1,167
Equity	18,452	28,237
Net debt to equity ratio	N/A	4.1%

31. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and currency risk.

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

(i) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has a certain concentration of credit risk as 68% (2006: 100%) and 79% (2006: 100%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively within the voice portal business segment.

31. FINANCIAL RISK MANAGEMENT (continued)

(ii) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flow and the earliest date that Group and the Company can be required to pay.

The Group	Carrying amount $'000	Total contractual undiscounted cash flow $'000	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000
2007					
CP Shares	**14,745**	**23,000**	**600**	**600**	**21,800**
Trade and other payables and accruals	**2,876**	**2,876**	**2,876**	**–**	**–**
Unsecured loans	**4,000**	**4,000**	**4,000**	**–**	**–**
	21,621	**29,876**	**7,476**	**600**	**21,800**
2006					
Trade and other payables and accruals	2,474	2,474	2,474	–	–
Unsecured loans	2,000	2,000	2,000	–	–
	4,474	4,474	4,474	–	–

The Company	Carrying amount $'000	Total contractual undiscounted cash flow $'000	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000
2007					
CP Shares	**14,745**	**23,000**	**600**	**600**	**21,800**
Other payables and accruals	**513**	**513**	**513**	**–**	**–**
Unsecured loans	**4,000**	**4,000**	**4,000**	**–**	**–**
	19,258	**27,513**	**5,113**	**600**	**21,800**
2006					
Other payables and accruals	449	449	449	–	–
Unsecured loans	2,000	2,000	2,000	–	–
	2,449	2,449	2,449	–	–

31. FINANCIAL RISK MANAGEMENT (continued)

(iii) Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate borrowings arising from liability component of CP Shares (Note 24). Management will consider hedging significant interest rate exposure should the need arise.

(iv) Foreign exchange risk

Most of the subsidiaries' functional currency is RMB since majority of the revenue of the Group are derived from operations in the PRC. The RMB is not freely convertible into other currencies however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. Other than the above, the Group did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

(v) Fair value estimation

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006 except the followings:

(i) fair value of the liability component of CP shares with a carrying amount of approximately $14,745,000 as at 31 December 2007, was approximately $15,110,000.

(ii) amount due from a subsidiary is unsecured, interest-free and in substance represents the Company's interest in this subsidiary in the from of quasi-equity loans. Given these terms it is not meaningful to disclose fair values.

32. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2007 and 2006 may be categorised as follows:

	2007 $'000	2006 $'000
Financial assets		
Loans and receivables (including cash and bank balances)	24,520	1,514
Available-for-sale investment	2,666	2,391
Financial liabilities		
Financial liabilities measured at amortised cost	21,340	4,378

Financial Summary

For the year ended 31 December 2007 (Expressed in Hong Kong dollars)

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

	2007	2006	2005	2004	2003
	$'000	$'000	$'000	$'000	$'000
Revenue	**1,460**	4,788	6,066	6,181	14,421
Cost of sales	**(929)**	(2,329)	(2,778)	(2,825)	(5,380)
Gross profit	**531**	2,459	3,288	3,356	9,041
Other revenue	**187**	612	265	70	482
Distribution costs	**(22)**	(1,617)	(4,071)	(3,052)	(2,352)
Administrative expenses	**(7,113)**	(7,660)	(13,556)	(33,803)	(34,295)
Amortisation of goodwill	**–**	–	–	(972)	(489)
Impairment loss recognised in respect of goodwill on subsidiaries	**(15,931)**	–	–	–	(3,818)
Operating loss	**(22,348)**	(6,206)	(14,074)	(34,401)	(31,431)
Finance costs	**(219)**	–	(1)	(93)	(77)
Share of results of associates	**–**	–	–	(94)	(1,640)
Share of result of a jointly controlled entity	**–**	–	–	(3,203)	13
Gain/(loss) on disposal of subsidiaries	**–**	–	–	30	(127)
Loss on disposal of associates	**–**	–	–	(11)	–
Impairment loss recognized in respect of goodwill on an associate	**–**	–	–	–	(4,351)
Loss before income tax	**(22,567)**	(6,206)	(14,075)	(37,772)	(37,613)
Income tax	**–**	–	–	–	–
Loss for the year	**(22,567)**	(6,206)	(14,075)	(37,772)	(37,613)
Attributable to:					
Equity holders of the Company	**(22,567)**	(4,972)	(13,525)	(36,493)	(37,031)
Minority Interests	**–**	(1,234)	(550)	(1,279)	(582)
	(22,567)	(6,206)	(14,075)	(37,772)	(37,613)

Financial Summary

For the year ended 31 December 2007 (Expressed in Hong Kong dollars)

ASSETS AND LIABILITIES

	31 December				
	2007	2006	2005	2004	2003
	$'000	$'000	$'000	$'000	$'000
Non-current assets	**15,288**	30,848	36,014	40,447	18,749
Current assets	**24,785**	1,863	4,420	7,094	29,737
Current liabilities	**6,876**	4,474	3,661	3,841	5,434
Net current assets/(liabilities)	**17,909**	(2,611)	759	3,253	24,303
Non-current liabilities	**14,745**	–	–	–	–
Net assets	**18,452**	28,237	36,773	43,700	43,052

Note:

1. The consolidated results of the Group for the years ended 31 December 2003, 2004, 2005 and the assets and liabilities as at 31 December 2003, 2004, 2005 of the Group have been extracted from the Company's published annual reports. The consolidated results of the Group for the years ended 31 December 2007 and 2006 are set out on page 19 of the annual report.