1. REORGANISATION AND BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 23 December 2003 under the Companies Law of the Cayman Islands. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 22 September 2004. The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

Pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares, the Company became the ultimate holding company of the subsidiaries (now comprising the "Group") on 6 January 2004. Details of the Reorganisation are set out in the prospectus issued by the Company on 10 September 2004.

The Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the prior year's financial statements of the Group have been prepared using the principle of merger accounting in accordance with Statement of Standard Accounting Practice No. 27 "Accounting for Group Reconstructions" issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Company.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 29.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of new HKFRSs has had no material effect on how the results for the current or prior years are prepared and presented.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES (Continued)

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no or any material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosure [1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures [2]
HKAS 21 (Amendment)	Net Investment in a Foreign operation [2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions [2]
HKAS 39 (Amendment)	The Fair Value Option [2]
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts [2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources [2]
HKFRS 7	Financial Instruments: Disclosures [1]
HK (IFRIC) – INT 4	Determining whether an Arrangement Contains a Lease [2]
HK (IFRIC) – INT 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds [2]
HK (IFRIC) – INT 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment [3]
HK (IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [4]

1 Effective for annual periods beginning on or after 1 January 2007.

2 Effective for annual periods beginning on or after 1 January 2006.

3 Effective for annual periods beginning on or after 1 December 2005.

4 Effective for annual periods beginning on or after 1 March 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments, which are measured at fair values at initial recognition, as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

The results of subsidiaries acquired or 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 into line with those used by other members of the Group.

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the 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.

Interests in associates

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

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are rendered.

Revenue from systems installation contracts, which includes the procurement of hardware on behalf of customers, systems design, planning, consulting, systems integration services, software implementation and maintenance is recognised based on the percentage of completion method by reference to the value of work carried out during the period. When the outcome of the contract cannot be estimated reliably, the costs incurred are recognised as an expense and the revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment loss at the balance sheet date.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Land and buildings	Over the lease term
Leasehold improvements	Over the unexpired term of the lease
Motor vehicle	20%
Furniture, fixture and equipment	20%

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

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 recoverable through future commercial activity. The resultant asset is amortised on a straight-line basis over the estimated useful life of the project from the date of commencement of commercial operation and less any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit and loss in the period in which it is incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment

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 the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Financial instruments

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

Financial assets

The Group's financial assets are classified as loans and receivables. The accounting policies adopted are set out below.

Loans and receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade payables, other payables and amounts due to directors are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

Equity-settled share-based payment transactions

Share options granted to employees of the Group and other individuals providing similar services

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

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

Leases

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

The Group as lessee

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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

Taxation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

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

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

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to expense items are recognised in the same period as those expenses are charged in the income statement and are reported separately as 'other operating income'.

Inventories

Inventories, represents computer hardware and spare parts, are stated at the lower of cost and net realisable value. Cost is calculated using first in, first out method.

Retirement benefits costs

Payments made to state-managed retirement benefits schemes are charged as an expense as they fall due.

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

Depreciation and amortization

The Group's net book value of property, plant and equipment and development costs at 31 December 2005 was RMB12.2 million and RMB6.7 million respectively. The Group depreciates the property, plant and equipment and development costs on a straight line basis over the estimated useful life of five to twenty years, and after taking into account of their respective estimated residual value, using the straight-line method, at the rate 5% to 20% per annum, commencing from the date the property, plant and equipment and development costs are available for use. The estimated useful life and dates that the Group places the property, plant and equipment and development costs into productive use reflect the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment and development costs.

Allowances for bad and doubtful debts

The policy for allowance for bad and doubtful debts of the Group is based on the evaluation of collectibility and aging analysis of accounts and on management's estimate. In determining whether impairment is required, the Group takes into consideration the aging status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognized on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and the carrying value.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

The credit risk of bank balances is low because the counterparties are reputable financial institutions.

The Group's trade receivables have no significant concentration of credit risk, with exposure spread over a number of counterparties and customers. However, the loan receivable was advanced to a third party (see Note 19 for details).

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group's operation is currently categorised into four operating divisions – system integration, customised software products, sale of hardware and software products and maintenance and other services. These divisions are the basis on which the Group reports its primary segment information.

Business segments for the year are as follows:

	2005		2004	
	Turnover RMB'000	**Results RMB'000**	Turnover RMB'000	Results RMB'000
System integration	**53,121**	**10,367**	58,891	24,479
Customised software products	**8,419**	**6,729**	12,734	11,868
Sale of hardware and software products	**13,032**	**2,484**	27,047	4,675
Maintenance and other services	**28,731**	**18,361**	16,284	9,982
	103,303	**37,941**	114,956	51,004
Unallocated other operating income		**3,136**		7,784
Unallocated corporate expenses		**(30,855)**		(22,811)
Share of result of an associate		**218**		(52)
Gain on disposal of an associate		**–**		37
Gain on disposal of a subsidiary		**74**		–
Interest expense on convertible notes		**–**		(1,143)
Profit before taxation		**10,514**		34,819
Income tax expense		**(1,100)**		–
Profit for the year		**9,414**		34,819

No business segment information for the assets, liabilities, capital expenditure, depreciation and other non-cash expenses of the Group is presented as all the assets and liabilities are shared by the business segments and cannot be separately allocated.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments

No geographical segment information of the Group is shown as the Group's operations, sales by geographical market and assets are substantially located in the People's Republic of China ("PRC").

7. OTHER OPERATING INCOME

	2005	2004
	RMB'000	RMB'000
Refund of value added tax *(note a)*	**1,560**	3,038
Government subsidy *(note b)*	**820**	3,940
Interest income on bank deposits	**563**	542
Interest income on loan receivable	**97**	–
Others	**96**	264
	3,136	7,784

Notes:

(a) Value added tax is paid at 17%. Pursuant to an approval by the Shinan Sub-Bureau of the Qingdao Local Tax Bureau in February 2003 and January 2004, Qingdao Zhongtian Information Technology Co., Ltd. 青島中天信息技朮有限公司 ("Qingdao Zhongtian"), a subsidiary of the Company, is entitled to refund of value added tax on sales of qualified software products for the years ended 31 December 2005 and 2004 as Qingdao Zhongtian is ranked as a software enterprise.

(b) The amount represents subsidy from the Qingdao Municipal Science and Technology Commission Shinan Sub Bureau 青島市市南區科技局, Qingdao Municipal Science and Technology Commission 青島市科技局 and Qingdao Shinan Software Park青島市市南區軟件園 for the purpose of giving immediate financial support to the Group's development activity.

8. PROFIT BEFORE TAXATION

	2005 RMB'000	2004 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Auditors' remuneration	**802**	769
Amortisation of development costs	**755**	633
Depreciation of property, plant and equipment	**1,889**	1,668
Loss on disposal of property, plant and equipment	**–**	308
Operating lease rentals on rented premises	**135**	383
Staff costs:		
Directors' emoluments *(note 9)*	**2,867**	1,719
Other staff costs	**11,465**	5,735
Retirement benefits scheme contribution (excluding directors)	**985**	480
	15,317	7,934
Research and development expenditure	**4,830**	2,620
Less: Amount capitalised	**(4,830)**	(1,968)
	–	652
Cost of inventories recognised as expense	**65,362**	63,952
Allowances for (write-back of) doubtful debts	**704**	(480)

9. DIRECTORS' EMOLUMENTS

Year ended 31 December 2005:

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	Total emoluments RMB'000
Sun Lianggui	–	813	10	823
Wang Zhaobo	–	531	10	541
Sun Xianfang	–	502	10	512
Wang Jiaqing	–	485	10	495
Zhou Zhongdong	–	374	–	374
Hung Randy King Kuen	62	–	–	62
Wang Yuechao	30	–	–	30
Wei Zhiqiang	30	–	–	30
	122	2,705	40	2,867

Year ended 31 December 2004:

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	Total emoluments RMB'000
Sun Lianggui	–	501	8	509
Wang Zhaobo	–	333	8	341
Sun Xianfang	–	310	8	318
Wang Jiaqing	–	290	8	298
Zhou Zhongdong	–	191	–	191
Hung Randy King Kuen	32	–	–	32
Wang Yuechao	15	–	–	15
Wei Zhiqiang	15	–	–	15
	62	1,625	32	1,719

No emoluments were paid by the Group to the directors as a discretionary bonus or an inducement to join or upon joining the Group or as a compensation for loss of office for both years.

No directors waived emoluments during both years.

10. EMPLOYEE'S EMOLUMENTS

The five highest paid individuals in the Group in 2005 and 2004 were all directors of the Company and details of their emoluments are included in note 9 above.

11. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from Hong Kong.

The applicable income tax rate for the Company's subsidiaries is 33%. On 2 January 2004, Qingdao Zhongtian was transformed to a wholly foreign-owned enterprise. In accordance with the tax legislations applicable to foreign investment enterprises, Qingdao Zhongtian is entitled to exemptions from PRC income tax for the two years commencing from its first profit-making year of operations and thereafter, entitled to a 50% relief from PRC income tax of 33% for the next three years. Qingdao Zhongtian is exempted from PRC income tax for the current year.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2005		2004	
	RMB'000	**%**	RMB'000	%
Profit before taxation	**10,514**		34,819	
Tax at domestic income tax rate	**3,470**	**33.0**	11,490	33.0
Tax effect of share of result of an associate	**(72)**	**(0.7)**	17	–
Tax effect of expenses that are not deductible in determining taxable profit	**–**	**–**	2,021	5.8
Tax effect of income that are not taxable in determining taxable profit	**(515)**	**(4.9)**	(3,730)	(10.7)
Tax effect of income that are not taxable under tax holidays	**(2,667)**	**(25.3)**	(10,051)	(28.9)
Others	**884**	**8.4**	253	0.8
Tax expense and effective tax rate for the year	**1,100**	**10.5**	–	–

There was no significant unprovided deferred taxation for both years or at the balance sheet dates.

12. DIVIDENDS

	2005	2004
	RMB'000	RMB'000
Proposed dividend		
– HK$0.0075 (approximately RMB0.00776) per share		
(2004: HK$0.025 (approximately RMB0.0266) per share)		
(Note a)	**3,104**	10,637
Paid *(Note b & c)*	**10,187**	31,869
	13,291	42,506

Notes:

(a) A final dividend in respect of 2005 at HK$0.0075 per share has been proposed by the Directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

(b) A final dividend in respect of 2004 at HK$0.025 per share was paid during 2005.

(c) The Company has declared and paid a special dividend of RMB31,869,000 (equivalent to HK$30,000,000) to its shareholders on 21 June 2004.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to equity holders of the Company of RMB9,469,000 (2004: RMB34,901,000) and 400,000,000 (2004: weighted average number of 311,421,503) shares in issue and issuable.

No dilutive earnings per share is presented for the year ended 31 December 2005 as the Company did not have any potential dilutive ordinary shares outstanding.

The calculation of diluted earnings per share for the year ended 31 December 2004 is based on the adjusted profit for the year attributable to equity holders of the Company of RMB36,044,000, representing the profit for the year attributable to equity holders of the Company of RMB34,901,000 added with interest expense of convertible notes of RMB1,143,000, and the adjusted weighted average of 337,958,388 shares in issue and issuable after the respective issue date of convertible notes taking into account the weighted average of 26,536,885 shares assumed to be issued prior to the conversion of convertible notes on 17 September 2004.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Leasehold improvements RMB'000	Motor vehicle RMB'000	Furniture, fixture and equipment RMB'000	Total RMB'000
THE GROUP					
COST					
At 1 January 2004	9,776	1,868	1,882	1,909	15,435
Additions	–	72	477	1,255	1,804
Disposals	–	(500)	–	–	(500)
At 31 December 2004 and 1 January 2005	9,776	1,440	2,359	3,164	16,739
Additions	–	–	–	157	157
Disposals	–	–	–	(14)	(14)
At 31 December 2005	**9,776**	**1,440**	**2,359**	**3,307**	**16,882**
DEPRECIATION AND AMORTISATION					
At 1 January 2004	672	167	29	449	1,317
Provided for the year	440	427	387	414	1,668
Eliminated on disposals	–	(192)	–	–	(192)
At 31 December 2004 and 1 January 2005	1,112	402	416	863	2,793
Provided for the year	484	288	468	649	1,889
Eliminated on disposals	–	–	–	(2)	(2)
At 31 December 2005	**1,596**	**690**	**884**	**1,510**	**4,680**
NET BOOK VALUES					
At 31 December 2005	**8,180**	**750**	**1,475**	**1,797**	**12,202**
At 31 December 2004	8,664	1,038	1,943	2,301	13,946

Land and buildings are situated in the PRC and are held under long-term leases.

15. DEVELOPMENT COSTS

	THE GROUP RMB'000
COST	
At 1 January 2004	2,050
Additions	1,968
At 31 December 2004 and 1 January 2005	4,018
Additions	4,830
Eliminated on disposal of a subsidiary	(419)
At 31 December 2005	**8,429**
AMORTISATION	
At 1 January 2004	378
Provided for the year	633
At 31 December 2004 and 1 January 2005	1,011
Provided for the year	755
Eliminated on disposal of a subsidiary	(77)
At 31 December 2005	**1,689**
CARRYING VALUES	
At 31 December 2005	**6,740**
At 31 December 2004	3,007

Development costs are amortised using the straight-line method over their estimated useful life of five years.

16. INTEREST IN AN ASSOCIATE

	2005 RMB'000	2004 RMB'000
Cost of interest in an unlisted associate	**500**	500
Share of post-acquisition losses	**(34)**	(252)
	466	248

Details of the Group's associate, which is established and operating in the PRC, at 31 December 2005 are as follows:

Name of associate	Form of business structure	Place of establishment	Proportion of nominal value of registered capital held indirectly by the Group	Principal activities
Beijing TongMing Pairui Company Limited 北京通銘派瑞有限公司	Domestic owned enterprise	PRC	25%	Provision of service related software consultants

The summarised financial information in respect of the Group's associate is set out below:

	2005 RMB'000	2004 RMB'000
Total assets	**3,459**	2,854
Total liabilities	**(1,595)**	(1,862)
Net assets	**1,864**	992
Group's share of net assets of an associate	**466**	248
Revenue	**3,758**	2,645
Profit for the year	**871**	24
Group's share of result of an associate for the year	**218**	6

17. INVENTORIES

	2005	2004
	RMB'000	RMB'000
Raw materials	**807**	257

18. OTHER CURRENT ASSETS

	2005	2004
	RMB'000	RMB'000
Trade receivables	**33,092**	37,492
Less: allowance for doubtful debts	**(704)**	(144)
	32,388	37,348

The Group has a policy of allowing credit period ranging from 90 to180 days.

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

	2005	2004
	RMB'000	RMB'000
0 to 90 days	**23,256**	31,802
91 to 180 days	**2,257**	1,716
181 to 365 days	**4,061**	3,830
Over 365 days	**2,814**	–
	32,388	37,348

The fair value of the Group's trade receivables and other receivables, at 31 December 2005 and 2004 approximates corresponding carrying value.

The fair value of bank deposits and bank balances at 31 December 2005 and 2004, with interests ranging from 0.02% to 2.07%, approximates corresponding carrying value.

19. LOAN RECEIVABLE

The loan, bearing interest at 4.5% per annum, is unsecured and due in October 2006. The fair value of the loan approximates its carrying value.

20. TRADE AND OTHER PAYABLES

The aged analysis of trade and other payables is stated as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
0 to 90 days	**14,528**	14,666
91 to 180 days	**–**	3,105
181 to 365 days	**2,431**	700
Over 365 days	**845**	–
	17,804	18,471

The fair value of the Group's trade and other payables at 31 December 2005 approximates to the corresponding carrying amount.

21. AMOUNTS DUE TO DIRECTORS

The amounts due to directors represents directors' emoluments payable. They are unsecured, interest free and repayable on demand.

22. SHARE CAPITAL

	Number of shares		Share capital	
	2005	2004	**2005**	2004
			HK$'000	HK$'000
Ordinary shares of HK$0.10 each				
Authorised:				
At 1 January	**1,000,000,000**	3,900,000	**100,000**	390
Increase on 27 July 2004	**–**	996,100,000	**–**	99,610
At 31 December	**1,000,000,000**	1,000,000,000	**100,000**	100,000
Issued and fully paid:				
At 1 January	**400,000,000**	1	**40,000**	–
Further allotment	**–**	99	**–**	–
Issue of shares by way of placing and public offer	**–**	85,000,000	**–**	8,500
Issue of shares pursuant to conversion of convertible notes *(note 25)*	**–**	39,691,267	**–**	3,969
Capitalisation issue of shares	**–**	275,308,633	**–**	27,531
At 31 December	**400,000,000**	400,000,000	**40,000**	40,000
Equivalent to RMB'000			**42,428**	42,428

23. SHARE OPTION SCHEME

Pursuant to a share option scheme approved by a resolution of the shareholders of the Company dated 27 July 2004 (the "Scheme"), the Company may grant options to the directors or employees of the Company or its subsidiaries, for the recognition of their contributions to the Group, to subscribe for shares in the Company with a payment of HK$1.00 upon each grant of options offered and the options granted must be taken up within 28 days from the date of grant. The exercise price of the share option will be determined at the higher of the average of closing prices of shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option; the closing price of the Company's shares on the Stock Exchange on the date of grant; and the nominal value of the shares.

The share options are exercisable at any time during a period of not more than 10 years from the date of grant, subject to the terms and conditions of the Scheme, the relevant PRC laws and regulations and any conditions of grant as may be stipulated by the board of directors.

The maximum number of shares in respect of which options may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes shall not exceed 30% of the number of shares of the Company in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes must not, in aggregate, exceed 10% of the number of shares of the Company in issue as at the date of approval of the Scheme unless further shareholders' approval has been obtained pursuant to the conditions set out in the Scheme. No person shall be granted an option which, if all the options granted to the person (including both exercised and outstanding options) in any 12 months period up to the date of grant are exercised in full, would result in such person's maximum entitlement exceeding 1% of the number of issued shares of the Company.

No option has been granted by the Company under the Scheme since its adoption.

24. DISPOSAL OF A SUBSIDIARY

On 8 May 2005, the Group disposed of its entire 90% interest in Qingdao Embedded Software Engineering Technology Research Centre Co., Ltd. ("Embedded Software") to an independent third party for a consideration of RMB900,000.

The net assets of Embedded Software at the date of disposal were as follows:

	2005 RMB'000
Property, plant and equipment	12
Development cost	342
Inventories	61
Trade receivables	110
Deposits, prepayments and other receivables	367
Bank balance and cash	30
Trade and other payables	(4)
	918
Minority interests	(92)
Gain on disposal of a subsidiary	74
Total consideration satisfied by cash	900
Net cash inflow arising on disposal:	
Cash consideration	900
Cash and cash equivalents disposed of	(30)
	870

The disposed subsidiary has no significant impacts on the results and cash flows of the Group for the current year.

25. CONVERTIBLE NOTES

Pursuant to the subscription agreements entered into by the Company and SIIS Investment (No. 2) Limited and the subscription agreements entered into by the Company with each of the investors other than SIIS Investment (No. 2) Limited ("other Pre-IPO Investors"), the Company issued convertible notes of HK$13,000,000 to SIIS Investment (No. 2) Limited on 15 January 2004 and to other Pre-IPO Investors in the principal sums of HK$18,000,000 on 7 January 2004 with maturity of three years.

The convertible note issued to SIIS Investment (No. 2) Limited bore interest at 5% per annum for the first twelve months after the date of issue, at 15% per annum for the thirteenth month to the end of twenty-forth month after the date of issue and at 25% per annum for the remaining months of twenty-fourth month after the date of issue to the maturity date. The convertible notes issued to other Pre-IPO investors bore interest at 5% per annum. Unless previously redeemed by the Company, the total of principal amount and accrued interest of the convertible notes would be automatically converted into shares of the Company at the final price of the shares to be subscribed for and issued pursuant to the Company's initial public offering on a day preceding the date of listing of the Company's shares on the Stock Exchange.

On 17 September 2004, the total of the principal amount of RMB32,903,000 and accrued interest of the convertible notes of approximately RMB777,000 was converted into 39,691,267 ordinary shares of the Company at a price of HK$0.80 per share.

No convertible notes were outstanding at 31 December 2005 and 2004.

26. OPERATING LEASE COMMITMENTS

	Group	
	2005	2004
	RMB'000	RMB'000
Minimum lease payments paid under operating leases	**135**	383

At the balance sheet date, the Group had commitments payable in the following year under non-cancellable operating leases in respect of rented premises as follows:

	Group	
	2005	2004
	RMB'000	RMB'000
Within one year	**–**	760
In the second to fifth years	**–**	760
	–	1,520

Operating lease payments represent rentals payable by the Group for certain of its office premises.

27. CAPITAL COMMITMENTS

The Group had no significant capital commitments as at the balance sheet dates.

28. RETIREMENT BENEFITS SCHEME

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

The employees of the Group's subsidiaries which operates in the PRC are required to participate in a central pension scheme operated by the local municipal government. These PRC subsidiaries are required to contribute 20% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

The total cost charged to income statement of approximately RMB1,025,000 (2004: RMB512,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

29. SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2005 are as follows:

Name	Form of business structure	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of equity held by the Company	Principal activities
Success Advantage Limited ("Success Advantage")	Limited company	British Virgin Islands	US$100	100%	Investment holding and trading of hardware and software products
Qingdao Zhongtian	Wholly foreign owned enterprise	PRC	HK$90,000,000	100%	Provision of system integration, applications and maintenance services and sale of hardware and software products
Qingdao Software Park Overseas Services Centre Co., Ltd. 青島軟件園海外服務中心有限公司	Equity joint venture	PRC	RMB1,000,000	90%	Provision of service related to software consulting

Except Success Advantage, all subsidiaries are held indirectly by the Company.

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