1. GENERAL INFORMATION

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 are 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.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 18.

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

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

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

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods on or after 1 January 2006. The adoption of new/revised HKFRSs did not result in substantial change to the Group's accounting policies.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease

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

The following standards and interpretations to existing standards have been issued but not yet effective in these financial statements.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK (IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK (IFRIC) – Int 8	Scope of HKFRS 2[4]
HK (IFRIC) – Int 9	Reassessment of Embedded Derivatives[5]
HK (IFRIC) – Int 10	Interim Financial Reporting and Impairment[6]
HK (IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK (IFRIC) – Int 12	Service Concession Arrangements[8]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 March 2006
[4] Effective for annual periods beginning on or after 1 May 2006
[5] Effective for annual periods beginning on or after 1 June 2006
[6] Effective for annual periods beginning on or after 1 November 2006
[7] Effective for annual periods beginning on or after 1 March 2007
[8] Effective for annual periods beginning on or after 1 January 2008

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the disclosure requirements of 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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 recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized 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 recognized when goods are delivered and title has passed.

Service income is recognized 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 recognized 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 recognized as an expense and the revenue is recognized only to the extent of contract costs incurred that it is probable will be recoverable.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 derecognized 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 derecognized.

Construction in progress

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Research and development expenditure

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

An internally-generated intangible asset arising from development expenditure is recognized 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 amortized 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 recognized, development expenditure is charged to profit and loss in the period in which it is incurred.

Land use rights

All land in PRC is stated-owned and no individual land ownership right exists. The Company leases certain land and the up-front prepayments paid for the operating leases are recorded as land use rights using the straight-line method or where there is impairment the impact is expensed in the income statements.

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 recognized 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 recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

Financial instruments

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

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, amount due from a director and bank balances) are carried at amortized cost using the effective interest method, less any identified impairment losses. An impairment loss is recognized 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 recognized, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. 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 amortized 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.

Derecognition

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

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognized and the consideration received or receivable is recognized in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts, if any, that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using first in, first out method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium to the extent they are incremental costs directly attributable to the equity transaction.

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 recognized 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 recognized 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 recognized as a reduction of rental expense over the lease term on a straight-line basis.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized 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 recognized 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 recognized directly in equity, in which cases, the exchange differences are also recognized 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 recognized as a separate component of equity (the translation reserve). Such exchange differences are recognized 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 taxation.

The tax currently payable is based on taxable profit for the years. Taxable profit differs from profit as reported in the consolidated 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.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated 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 recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized 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 recognized 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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 realized based on tax rates that have been enacted or substantially enacted by the balance sheet date. 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 recognized as income over the periods necessary to match them with the related costs. Grants related to expense items are recognized in the same period as those expenses are charged in the income statement and are reported separately as 'other operating income'.

Provisions and contingent liabilities

Provisions are recognized when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimates. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

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 2006 was RMB1,808,000 and RMB490,000 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.

Impairment of trade receivables, other receivables and loans receivable

The policy for impairment loss of trade receivables, other receivables and loans receivable 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 impairment loss 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. If the financial conditions of customers/borrowers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Estimated impairment of development costs

Development costs are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of development costs have been determined based on value-in-use calculations. These calculations require the use of judgement and estimates. Despite that the Group has used all available information to make this estimation, inherent uncertainty exists and actual write-off may be higher than the amounts estimated.

Impairment of land use rights and construction in progress

In considering the impairment losses that may be required for land use rights and construction in progress, recoverable amount of the assets is determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be available. In determining value in use, expected cash flows generated by the assets are discounted to their present value which required significant judgement. The Directors determine the fair values of these assets at 31 December 2006 with reference to the market value of approximately RMB72 million as included in the valuation report dated 12 December 2006 conducted by the professional valuers, BMI Appraisals Limited. The Directors consider that there have been no impairment on the carrying value of these assets at 31 December 2006.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, loans receivable, amount due from a director, 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 2006 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The 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 loans receivable were advanced to certain independent third parties (note 23).

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group's operation is currently organized into four operating divisions – system integration, customized 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:

GROUP

	2006		2005	
	Turnover RMB'000	**Results RMB'000**	Turnover RMB'000	Results RMB'000
System integration	**8,670**	**4,155**	53,121	10,367
Customized software products	**3,310**	**401**	8,419	6,729
Sale of hardware and software products	**7,904**	**1,485**	13,032	2,484
Maintenance and other services	**3,582**	**869**	28,731	18,361
	23,466	**6,910**	103,303	37,941
Unallocated other operating income		**6,085**		3,136
Unallocated corporate expenses		**(21,957)**		(30,855)
Impairment loss of development costs		**(4,589)**		–
Impairment loss of trade receivables		**(4,674)**		–
Gain on disposal of property, plant and equipment		**2,110**		–
Gain on disposal of a subsidiary		**–**		74
(Loss)/profit from operation		**(16,115)**		10,296
Share of result of an associate		**(81)**		218
(Loss)/profit before income tax		**(16,196)**		10,514
Income tax		**–**		(1,100)
(Loss)/profit for the year		**(16,196)**		9,414

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.

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

	2006 **RMB'000**	2005 RMB'000
Refund of value added tax *(note a)*	**2,374**	1,560
Government subsidy *(note b)*	**1,272**	820
Interest income on bank deposits	**950**	563
Interest income on loans receivable	**397**	97
Gain on disposal of an associate	**13**	–
Negative goodwill recognized *(note 31)*	**88**	–
Reversal of impairment loss on trade receivables	**704**	–
Others	**287**	96
	6,085	3,136

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. 青島中天信息技術有限公司 ("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 2006 and 2005 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, Qingdao Shinan Software Park 青島市市南區軟件園 and South Qingdao regional People's Government 青島市市南區人民政府 for the purpose of giving immediate financial support to the Group's development activity.

8. (LOSS)/PROFIT BEFORE INCOME TAX

	2006 **RMB'000**	2005 RMB'000
(Loss)/profit before income tax has been arrived at after charging:		
Auditors' remuneration	**797**	802
Amortization of development costs	**1,661**	755
Cost of inventories recognized as expense	**16,556**	65,362
Depreciation of property, plant and equipment	**1,827**	1,889
Impairment loss of trade receivables	**4,674**	704
Impairment loss of other receivables	**569**	–
Impairment loss of development costs	**4,589**	–
Operating lease rentals on rented premises	**199**	135
Staff costs:		
Directors' emoluments *(note 9)*	**2,348**	2,867
Other staff costs	**6,083**	11,465
Retirement benefits scheme contribution (excluding directors)	**1,599**	985
Research and development expenditure	**–**	4,830
Less: Amount capitalized	**–**	(4,830)
	–	–

9. DIRECTORS' EMOLUMENTS

Year ended 31 December 2006:

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	Total emoluments RMB'000
Sun Lianggui	–	645	9	654
Wang Zhaobo	–	450	9	459
Sun Xianfang	–	422	9	431
Wang Jiaqing	–	404	9	413
Zhou Zhongdong	–	271	–	271
Hung Randy King Kuen	60	–	–	60
Wang Yuechao	30	–	–	30
Wei Zhiqiang	30	–	–	30
	120	2,192	36	2,348

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

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.

10. EMPLOYEE'S EMOLUMENTS

The five highest paid individuals in the Group in 2006 and 2005 were all directors of the Company and details of their emoluments are included in note 9 above.

11. INCOME TAX

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 entitled to a 50% relief from PRC income tax of 33% for the current year.

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

	2006		2005	
	RMB'000	**%**	RMB'000	%
(Loss)/profit before income tax	**(16,196)**		10,514	
Tax at domestic income tax rate	**(5,345)**	**(33.0)**	3,470	33.0
Tax effect of income that are not taxable in determining taxable profit	**(784)**	**(4.8)**	(515)	(4.9)
Tax effect of income that are not taxable under tax holidays	**–**	**–**	(2,667)	(25.3)
Tax effect of expenses that are not deductible in determining taxable profit	**5,337**	**33**	–	–
Tax effect on unrecognized tax loss	**792**	**4.8**	–	–
Others	**–**	**–**	812	7.7
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. (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company includes a loss of RMB44,342,000 (2005: profit of RMB7,698,000) which has been dealt with in the financial statements of the Company.

13. DIVIDENDS

	2006	2005
	RMB'000	RMB'000
Final dividends paid in respect of:		
– 2004 *(note (b))*	**–**	10,187
– 2005 *(note (c))*	**3,074**	–
	3,074	10,187

Notes:

(a) The Board of Directors of the Company does not recommend the payment of any dividend for the year ended 31 December 2006.

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

(c) A final dividend in respect of 2005 at HK$0.0075 per share was paid during 2006.

14. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss for the year attributable to equity holders of the Company of RMB16,192,000 (2005: profit of RMB9,469,000) and weighted average number of 400,000,000 (2005: 400,000,000) shares in issue.

No dilutive earnings per share is presented for the year ended 31 December 2006 and 31 December 2005 as the Company did not have any potential dilutive ordinary shares outstanding.

15. PROPERTY, PLANT AND EQUIPMENT

GROUP

	Land and buildings RMB'000	Leasehold improvements RMB'000	Motor vehicle RMB'000	Furniture, fixture and equipment RMB'000	Total RMB'000
COST					
At 1 January 2005	9,776	1,440	2,359	3,164	16,739
Additions	–	–	–	157	157
Disposals	–	–	–	(14)	(14)
At 31 December 2005 and 1 January 2006	9,776	1,440	2,359	3,307	16,882
Additions	–	–	–	39	39
Acquisition of a subsidiary *(note 31)*	–	–	–	5	5
Disposals	(9,776)	(1,440)	–	(1,484)	(12,700)
At 31 December 2006	**–**	**–**	**2,359**	**1,867**	**4,226**
DEPRECIATION AND AMORTIZATION					
At 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 and 1 January 2006	1,596	690	884	1,510	4,680
Provided for the year	582	138	508	599	1,827
Eliminated on disposals	(2,178)	(828)	–	(1,083)	(4,089)
At 31 December 2006	**–**	**–**	**1,392**	**1,026**	**2,418**
NET BOOK VALUES					
At 31 December 2006	**–**	**–**	**967**	**841**	**1,808**
At 31 December 2005	8,180	750	1,475	1,797	12,202

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

16. DEVELOPMENT COSTS

	GROUP RMB'000
COST	
At 1 January 2005	4,018
Additions	4,830
Eliminated on disposal of a subsidiary	(419)
At 31 December 2005 and 31 December 2006	**8,429**
AMORTIZATION AND IMPAIRMENT LOSS	
At 1 January 2005	1,011
Provided for the year	755
Eliminated on disposal of a subsidiary	(77)
At 31 December 2005 and 1 January 2006	1,689
Provided for the year	1,661
Impairment loss	4,589
At 31 December 2006	**7,939**
NET BOOK VALUE	
At 31 December 2006	**490**
At 31 December 2005	6,740

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

17. LAND USE RIGHTS

	GROUP	
	2006	2005
	RMB'000	RMB'000
COST		
Acquisition of a subsidiary and at 31 December 2006 *(note 31)*	**67,524**	–
Amortisation		
At 31 December 2006	**–**	–
NET BOOK VALUE		
At 31 December 2006	**67,524**	–
Classified as non-current assets	**65,778**	–
Classified as current assets	**1,746**	–
	67,524	–

The leasehold land is situated in Qingdao, PRC and held under a medium term lease of 40 years.

18. INVESTMENTS IN SUBSIDIARIES

	COMPANY	
	2006	2005
	RMB'000	RMB'000
Unlisted shares, at cost	**60,780**	62,865
Due from subsidiary	**66,349**	77,840
Due to subsidiary	**(799)**	(826)
	126,330	139,879
Provision for impairment loss	**(40,781)**	–
	85,549	139,879

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed repayment terms.

18. INVESTMENTS IN SUBSIDIARIES (Continued)

Details of the Company's subsidiaries as at 31 December 2006 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 Information Technology Co., Ltd. 青島中天信息技術有限公司	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 Zhongtian Software Park Co., Ltd. 青島中天軟件園有限公司	Limited enterprise	PRC	RMB10,000,000	100%	Property development and provision of software training services
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 for 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.

19. CONSTRUCTION IN PROGRESS

	GROUP	
	2006	2005
	RMB'000	RMB'000
Acquisition of a subsidiary and at 31 December 2006 *(note 31)*	**1,762**	–

Construction in progress represents preliminary expenses incurred relating to the construction of building located in Qingdao, PRC.

20. INTEREST IN AN ASSOCIATE

	GROUP	
	2006	2005
	RMB'000	RMB'000
Cost of interest in an unlisted associate	**–**	500
Share of post-acquisition losses	**–**	(34)
	–	466

The Group held 25% interest in the registered capital of Beijing TongMing Pairui Company Limited which was disposed of on 28 December 2006. Details as at 31 December 2005 were 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

20. INTEREST IN AN ASSOCIATE (Continued)

The summarized financial information in respect of the Group's associate for the last year ended 31 December 2005 was set out below:

	2006	2005
	RMB'000	RMB'000
Total assets	**–**	3,459
Total liabilities	**–**	(1,595)
Net assets	**–**	1,864
Group's share of net assets of an associate	**–**	466
Revenue	**–**	3,758
Profit for the year	**–**	871
Group's share of result of an associate for the year	**–**	218

21. INVENTORIES

	GROUP	
	2006	2005
	RMB'000	RMB'000
At cost:		
Work in progress	**3,389**	807

22. TRADE RECEIVABLES

	GROUP	
	2006	2005
	RMB'000	RMB'000
Trade receivables	**9,341**	33,092
Less: Provision for impairment loss	**(4,674)**	(704)
	4,667	32,388

The Group has a policy of allowing credit period ranging from 90 to 180 days.

An ageing analysis of the trade receivables net of provision for impairment as at the balance sheet date, based on payment due date, is as follows:

	GROUP	
	2006	2005
	RMB'000	RMB'000
0 to 90 days	**2,270**	23,256
91 to 180 days	**1,653**	2,257
181 to 365 days	**461**	4,061
Over 365 days	**283**	2,814
	4,667	32,388

The fair value of the Group's trade receivables, at 31 December 2006 and 2005 approximates corresponding carrying value.

23. LOANS RECEIVABLE

Included in the loans receivable of RMB30,869,000 (2005: RMB10,000,000) is an unsecured loan of RMB12,000,000 advanced to an independent third party, which is bearing interest at 5.1% per month and due on 30 November 2007. The loan of RMB10,000,000 brought forward from the last year, which was unsecured and bore interest at 4.5% per month, was settled during the year.

The remaining balance of the loans amounting to RMB18,869,000 (2005: Nil) are advanced to certain independent third parties, which are unsecured, interest free and due in July and December 2007.

The fair value of these loans approximate their carrying value.

24. AMOUNT DUE FROM A DIRECTOR

	GROUP	
	2006	2005
	RMB'000	RMB'000
Balance at 31 December	**118,000**	–
Maximum balance during the year	**160,000**	–

The amount due from a director of the Company, Chen Jun, is unsecured, interest free and repayable on demand.

25. CASH AND CASH EQUIVALENTS

	GROUP		COMPANY	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**29,173**	111,215	**8,515**	5,857

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	GROUP		COMPANY	
	2006	2005	**2006**	2005
Hong Kong Dollars	**21,448**	32,356	**8,122**	5,279
United States Dollars	**50**	910	**44**	45

26. TRADE AND OTHER PAYABLES

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

	GROUP	
	2006	2005
	RMB'000	RMB'000
0 to 90 days	**2,193**	14,528
91 to 180 days	**848**	–
181 to 365 days	**840**	2,431
Over 365 days	**1,634**	845
	5,515	17,804

The fair value of the Group's trade and other payables at 31 December 2006 approximates to the corresponding carrying amount.

27. AMOUNTS DUE TO DIRECTORS

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

28. SHARE CAPITAL

	COMPANY			
	Number of shares		Share capital	
	2006	2005	**2006**	2005
			HK$'000	HK$'000
Ordinary shares of HK$0.10 each				
Authorized:				
At 1 January and 31 December	**1,000,000,000**	1,000,000,000	**100,000**	100,000
Issued and fully paid:				
At 1 January and 31 December	**400,000,000**	400,000,000	**40,000**	40,000
Equivalent to RMB'000			**42,428**	42,428

29. RESERVES

GROUP

The amount of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 27 of the financial statements.

COMPANY

	Share premium RMB'000	Special reserve RMB'000	Translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2005	47,253	64,098	64	(3,210)	108,205
Exchange differences on translation	–	–	(2,959)	–	(2,959)
Profit for the year	–	–	–	7,698	7,698
Dividend paid – 2004	–	–	–	(10,187)	(10,187)
At 31 December 2005 and 1 January 2006	47,253	64,098	(2,895)	(5,699)	102,757
Exchange differences on translation	–	–	(3,931)	–	(3,931)
Transfer	–	(13,261)	–	13,261	–
Loss for the year	–	–	–	(44,342)	(44,342)
Dividend paid – 2005	–	–	–	(3,074)	(3,074)
At 31 December 2006	**47,253**	**50,837**	**(6,826)**	**(39,854)**	**51,410**

29. RESERVES (Continued)

The special reserve represented the difference between the nominal value of the shares of the Company issued in exchange for the issued share capital of the subsidiaries and the value of the underlying assets of the subsidiaries pursuant to the Group Reorganization on 6 January 2004.

Subject to the Companies Law of the Cayman Islands and the Article of Association of the Company, the share premium and special reserve are distributable to the shareholders of the Company.

30. 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.

31. ACQUISITION OF A SUBSIDIARY

On 31 December 2006, the Group acquired 100 per cent of the issued share capital of Qingdao Zhongtian Software Park Co. Ltd. for consideration of approximately RMB39,942,000 as referred to note 35 below. This transaction has been accounted for by the purchase method of accounting. The fair value of the net assets acquired in the transaction are as follows:

	Acquiree's carrying amount before combination	Fair value adjustment	Fair value
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	5	–	5
Land use rights	14,669	52,855	67,524
Construction in progress	1,762	–	1,762
Deposits, prepayment and other receivables	679	–	679
Cash and cash equivalents	125	–	125
Trade and other payables	(30,065)	–	(30,065)
	(12,825)	52,855	
Net assets acquired			40,030
Negative goodwill			(88)
Cash consideration			39,942
Net cash outflow arising on acquisition:			
Cash consideration paid			39,942
Cash and cash equivalents acquired			(125)
			39,817

If the acquisition had been completed on 1 January 2006, the Group's revenue for the year would have been RMB31,663,000, and its loss for the year would have been RMB16,171,000.

32. 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:

	2006	2005
	RMB'000	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 had no significant impacts on the results and cash flows of the Group for the current year.

33. COMMITMENTS

At the balance sheet date, the Group had the following commitments:

(a) Capital commitments

At 31 December 2006, the Group had capital commitments not provided for in the financial statements as follows:

	GROUP	
	2006	2005
	RMB'000	RMB'000
Authorized but not contract for	**10,871**	–
Contracted but not provided for	**2,480**	–
	13,351	–

The Company has no capital commitments at the balance sheet date (2005: Nil).

(b) Operating lease commitments

	GROUP	
	2006	2005
	RMB'000	RMB'000
Minimum lease payments paid under operating leases	**173**	135

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	
	2006	2005
	RMB'000	RMB'000
Within one year	**519**	–

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

The Company has no operating lease commitment at the balance sheet date (2005: Nil).

34. RETIREMENT BENEFITS 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 RMB1,635,000 (2005: RMB1,025,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

35. RELATED PARTY TRANSACTION

On 23 November 2006, sales and purchase agreement was entered into with Chen De Zhao and Wang Gui Ju, who are the parents of a director of the Company, Chen Jun, for the acquisition of all issued capital of Qingdao Zhongtian Software Park Company Limited, at a consideration of RMB70,000,000. The transaction was completed on 31 December 2006.

Details of this transaction are set out in the Company's circular dated 12 December 2006.

36. POST BALANCE SHEET EVENT

On 31 January 2007, Apex Faith Management Limited ("Apex Faith"), which was solely beneficially owned by Mr. Sun Lianggui, and Fine Mean Investments Limited ("Fine Mean"), which was solely beneficially owned by Mr. Chen Jun, entered into a Share Transfer Agreement pursuant to which Apex Faith sold a total of 182,216,113 shares of the Company to Fine Mean for a total consideration of HK$18,000,000. Completion of the Share Transfer Agreement took place on 9 February 2007. Fine Mean and other parties acting in concert with it were required to make a mandatory cash offer for all the issued shares of the Company not already owned by it or agreed to be acquired by it and parties acting in concert with it. Upon completion of the mandatory offer, Fine Mean and parties acting in concert with it in aggregate hold 210,834,637 shares of the Company, representing approximately 52.7% of the issued share capital of the Company.